



New Answers in Banking

# Financial Report 2007.

WestLB AG

## Key Figures

### Key Figures Year-on-Year Comparison

Performance Figures	2007	2006	Change	
	€ millions	€ millions	€ millions	%
Net interest income	1,301.9	1,443.5	- 141.6	- 9.8
Net commission income	343.2	321.9	21.3	6.6
Net income from trading operations	- 1,477.5	436.7	- 1,914.2	> - 100
Other operating expenses/income	44.1	6.2	37.9	> 100
Personnel expenses	- 740.1	- 916.7	176.6	19.3
Other administrative expenses	- 607.0	- 668.6	61.6	9.2
Provisions for credit risks	- 373.3	331.3	- 704.6	> - 100
Result of securities and participations	160.6	- 66.5	227.1	> 100
Withdrawal from/Allocation to the fund for general bank risks pursuant to § 340g HGB	300.0	- 218.0	518.0	> 100
Restructuring expenses	0.0	- 168.3	168.3	100
<b>Profit/loss before taxes</b>	<b>- 1,048.1</b>	<b>501.5</b>	<b>- 1,549.6</b>	<b>&gt; - 100</b>
Taxes on income and revenues	- 115.5	- 137.8	22.3	16.2
Profits transferred under a partial profit transfer agreement	0.0	- 59.1	59.1	100
<b>Profit/loss after taxes</b>	<b>- 1,163.6</b>	<b>304.6</b>	<b>- 1,468.2</b>	<b>&gt; - 100</b>
Balance Sheet Figures	2007	2006	Change	
	€ billions	€ billions	€ billions	%
Total assets	231.3	237.3	- 6.0	- 2.5
Business volume	306.6	327.3	- 20.7	- 6.3
Credit volume	239.5	269.6	- 30.1	- 11.2
Borrowed refinancing funds	214.0	216.5	- 2.5	- 1.2
Equity capital	4.8	6.0	- 1.2	- 20.0
Bank Regulatory Capital Ratios (BIS)	2007	2006		
Core capital in € billions	4.6	6.2		
Own funds in € billions	8.0	10.4		
Risk-weighted assets in € billions	85.9	76.2		
Core capital ratio in %	5.7	8.4		
Overall ratio in %	9.3	13.7		
Employees				
Number of employees	4,897	4,884		
Full-time equivalent	4,654	4,659		
Current Ratings	Short Term	Long Term	Public Pfandbrief	
Moody's Investors Service	P-1	A2	Aaa	
Standard & Poor's	A-2	A-	AAA	
Dominion Bond Rating Service	R-1 (middle)	A (high)	(-)	

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We will be pleased to send you a copy of the WestLB Annual Report for 2007 and the Group Annual Financial Statements. The Annual Report is also available on the Internet at [www.westlb.com](http://www.westlb.com).

# WestLB AG Statement of Financial Condition at December 31, 2007

## Performance at a Glance

Two exceptional factors dominated the course of the 2007 fiscal year for WestLB. Firstly, sharp price movements caused by a takeover bid as well as a breach of internal trading limits led to valuation losses at the end of March from proprietary trading in spread positions with ordinary and preferred shares. Information about these trading positions and the trading strategy was made public at the beginning of April 2007. Immediately thereafter, as the price volatility of these positions continued to escalate, we decided to step up the implementation of exit strategies. The measures we took in the first half of the year to reduce these positions as well as our risk resulted in an overall loss of € 604.0 million. The second major influence on our performance was the dramatic escalation of the crisis in the financial markets, which had been triggered by problems stemming from the extension of so-called subprime mortgage loans in the U.S., i. e. home loans granted to low-income borrowers with little or no assets. As of December 31, 2007, WestLB had suffered valuation losses of € 1,130.2 million and allocated € 419.4 million to its credit risk provisions because of acute credit risks. In response to the detrimental effects on our results and capital, the Bank's owners have reached an agreement on a comprehensive risk shield, restructuring and alignment of the Bank's business model.

Against this backdrop, our profit before taxes for fiscal 2007 moved deeply into negative territory at € -1,048.1 million (2006: € 501.5 million). The proprietary trading losses and crisis in the financial markets had a particularly adverse impact on our net income from trading operations, which stood at € -1,477.5 million, and our credit risk provisioning, where we reported a net allocation of € 373.3 million. Our net interest income for the year also dropped, down € 141.6 million to € 1,301.9 million, the chief influence here being higher dividend payments from subsidiaries and other participations in the previous year. By contrast, net commission income increased, up 6.6% to € 343.2 million, together with the result of securities and participations, which totalled € 160.6 million following a negative result of € -66.5 million a year earlier. We also succeeded in further reducing our cost basis. Administrative expenses amounted to € 1,347.1 million, which represents a decrease of € 238.2 million from a year earlier. We dissolved the fund for general bank risks formed pursuant to § 340g of the German Commercial Code (HGB). The balance of the fund was € 300.0 million.

The net loss for the year amounts to € -1,163.6 million, which will be offset with withdrawals of € 960.4 million from capital reserves, € 150.0 million from other reserves from retained earnings and € 53.2 million from the silent contributions to capital issued in 2003.

The repercussions of the crisis in the financial markets are also reflected in the business and credit volumes. Business volume at WestLB AG decreased to € 306.6 billion (2006: € 327.3 billion). Credit volume likewise declined to € 239.5 billion (2006: € 269.6 billion).

## Economic Setting

From an economic perspective, 2007 was characterised by unexpectedly robust global growth, the re-emergence of inflation in the euro area and elsewhere, the rise in crude oil prices to US\$ 100 per barrel and the sharp appreciation of the euro against the dollar to almost 1.50 USD/EUR. In addition, the crisis in the international financial markets prompted by the problems in the U.S. real estate markets squeezed money and capital markets throughout the world. Major uncertainty persists about the degree of the crisis's repercussions in real economic terms.

Contrary to expectations, world economic growth slowed very little. The increase in world GDP, a projected 4.8%, remains well above the long-term trend, which is all the more noteworthy given the flagging state of the U.S. economy, the world's largest. The strongest momentum came, as before, from the emerging markets, especially those in Asia, where China and India again led the field. Emerging markets in Latin America and Europe also largely maintained the brisk pace of growth of the previous year.

Growth in the industrialised countries slackened, especially in the U.S. The decrease in housing investments, which started before the crisis in the financial markets erupted, factored heavily into this development. Given the risks facing the financial system and the economy as a result of the real estate crisis, the U.S. Federal Reserve had reduced the federal funds rate by a total of 100 basis points to 4.25% by year-end and by a further 125 basis points in January 2008, despite ongoing concerns about inflation. Suffering further pressure amid the upheaval in the financial markets and mounting fears of a U.S. recession, the dollar fell sharply.

The performance of Japan's economy was mixed in the year under review. After a strong start, the Japanese economy levelled off as the year progressed. Growth in the second half was more even, but slower overall. The Bank of Japan decided to leave interest rates unchanged due to the crisis in the financial markets. With investors increasingly taking a risk-averse approach and unwinding their carry trades, the yen gained significant ground towards the end of the year, following a weak first half.

The euro area economy continued its good performance from the prior year on the whole. Although progress was fairly unstable in the individual quarters, average growth for the year, at 2.7%, proved to be much higher than expected, with no member state showing any signs of major weakening. Prices rose noticeably faster in the second half of the year, driven in large part by the higher price of energy and food. Inflation reached 3.1% in November, its highest level since May 2001. However, despite growing concerns about inflation, the European Central Bank, which had raised its main refinancing rate to 4% by June, refrained from further rate increases due to the considerable tensions in the money and capital markets. Whilst the interest rate on 3-month deposits soared as a result of dwindling confidence until the end of the year, the bond markets moved both higher and lower. Yields on the ten-year Bund increased to 4.7% in the summer before falling to around 4.0% and then rebounding to 4.3% at year-end.

Germany's economy proved to be one of the positive surprises, as was the case in 2006. The 2.5% growth achieved was far higher than expected considering the pervasive pressure exerted on private households by fiscal policy. Private consumption and housing investment were hard hit by the increase in value-added tax in the first half of the year, but the strong stimulus still provided by foreign trade and robust capital spending by companies more than made up for these effects. The German economy handled the growing strength of the euro, rising interest rates and the latest surge in crude oil prices adeptly. The biggest shock came from the labour market, with the number of people registered as jobless falling to its lowest level in 13 years.

## Developments in the Banking Sector

Competition in the German banking sector remains very intense and has resulted in considerable margin pressure in banks' retail business. The margins in their business with corporate clients, by comparison, improved due to the crisis in the financial markets. Overall, however, risk premiums more or less normalised.

The scene in the banking sector continues to be shaped by the crisis in the financial markets and its repercussions. One of the industry's other important events was overshadowed almost completely by the market upheaval. The introduction of the EU's Markets in Financial Instruments Directive (MiFID) on November 1st garnered far less attention than anticipated.

Following in some cases very positive development in the first half of the year, business in the international markets experienced a sharp setback starting in the third quarter. With substantial write-downs on subprime trading positions and the resulting price distortions for a wide array of securitised lending products as well as on lending commitments in the leveraged buyout segment, results in investment banking departments in some cases came under strong pressure.

However, the heightened risk aversion and higher volatility positively affected business in the derivatives and spot markets for banks. Nevertheless, prices in the secondary market for securitised products are still sharply depressed, and growth in a number of affected submarkets has been muted. We expect a degree of recovery in 2008, but view a return to the high performance levels seen in the first half of 2007 as very unlikely.

## Structural Changes

The owners of WestLB laid the cornerstones of the Bank's future development in a 10-point declaration issued on December 12, 2007. The declaration focuses on measures aimed at strengthening WestLB and realigning its business model. Action items include expanding the Bank's business with medium-sized companies, with particular attention paid to adding firms in the home region of North Rhine-Westphalia with annual sales of € 50 million and higher to the client base, and broadening the range of products the savings banks can use in their retail business. Furthermore, the shareholders undertook to ensure that WestLB has adequate economic capital at all times.

With the international capital markets still reeling from the effects of the U.S. subprime mortgage crisis, WestLB's owners reached an agreement on February 8, 2008 concerning a comprehensive risk shield for the Bank. In a position paper detailing the specifics of the agreement, the owners pledged to ring-fence securities with a nominal value of roughly € 23 billion from the Bank's structured securities portfolios and to cover any payment defaults on the securities up to the sum of € 5 billion (see "Events Occurring after the Close of the Fiscal Year" for additional information).

With respect to additional strategic options, WestLB's shareholders expressed support in their 10-point declaration for initiating detailed talks with Landesbank Hessen-Thüringen Girozentrale (Helaba) about a possible merger with WestLB. Such a merger would create a stronger business model for the combined institution without sacrificing the local interests of the participating federal states.

Regardless of this strategic option, the shareholders and WestLB concur that additional restructuring and changes to the business model are necessary in order to equip the Bank with the tools to succeed and be profitable on a sustainable basis. The framework plan submitted to the Supervisory Board on February 7, 2008 for the period up to 2010 envisages cost savings of € 300 million, which are to be achieved, among other things, by reducing headcount by between 1,300 and 1,500 employees. At the same time, the savings banks and mid-cap initiative alone should increase income by approximately € 100 million.

The Lean Bank initiative launched in 2006 continued to make a substantial contribution towards strengthening WestLB's operating basis in the year under review. Measures directed at boosting the efficiency of processes and streamlining internal structures enabled the Bank to achieve planned savings of roughly € 180 million by the end of 2007. Personnel expenses and other administrative expenses were lower both in Germany and at our international locations. The Lean Bank project will be incorporated into the newly adopted restructuring programme.

In September 2007, the two North Rhine-Westphalian savings banks associations and WestLB established "S-Verbund-Clearing NRW GmbH" in order to reinforce the joint business conducted between WestLB and the savings banks. The new company will function as the clearing centre for business transactions of the S-Finanzverbund NRW and as the office of the advisory committee. An accounting system for the S-Finanzverbund NRW is also envisaged, which will include a consolidated balance sheet and statement of income as well as a joint risk report. The risk report, which will be prepared on the basis of uniform risk standards, will for the first time provide a clear picture of the risk situation for the entire S-Finanzverbund NRW. The establishment of "S-Verbund-Clearing NRW GmbH" represents, therefore, an enhancement of the existing cooperation model between the S-Finanzverbund and WestLB. Moreover, WestLB's shareholders identified the creation of a contractual framework for the operation of the S-Finanzverbund NRW and the collaboration among the savings banks, associations and WestLB as an absolute necessity in their 10-point declaration.

In growing its business, WestLB draws on its own strengths, but also forges alliances with capable partners when strategically prudent. In August 2007, for example, WestLB and Standard Chartered Bank agreed to cooperate more closely worldwide. Under the agreement, corporate clients of WestLB will have access to the branch network and product offering of Standard Chartered in countries where WestLB does not maintain a presence. Standard Chartered operates 1,400 branches worldwide, mainly in Asia, Africa and the Middle East, offering a full range of products in Corporate Finance, Global Markets and Transaction Banking.

The Managing Board decided to suspend WestLB AG's proprietary trading in spread positions with ordinary and preferred shares following losses suffered in the trading, but plans to expand the Bank's securities business with clients. Further growth in the customer business, accompanied by considerable restraints on proprietary trading, will help stabilise results.

The composition of the Managing Board changed during the year. Robert M. Stein resigned from the Managing Board of WestLB AG on July 10, 2007, and Klaus-Michael Geiger resigned on July 16, 2007. On July 26, 2007, the Bank's Supervisory Board appointed Alexander Stuhlmann as the new Chairman of the Managing Board with immediate effect. Dr. Thomas R. Fischer and Dr. Matthijs van den Adel were dismissed on that date. At its meeting on September 13, 2007, the Supervisory Board appointed Dr. Wolfgang Nickels to the Managing Board.

Sparked by the troubles in the U.S. with mortgage loans granted to borrowers with poor credit, the international capital markets were thrown into extensive turmoil in the year under review. The situation was difficult for all companies, including WestLB. Declining confidence and uncertainty about the volume of potential defaults disrupted the mobilisation and allocation of funds at all points along the credit securitisation chain. Accordingly, WestLB extended to each of the two structured investment vehicles Kestrel and Harrier a credit facility that essentially functions as a liquidity back-up line.

All three rating agencies reviewed their ratings for WestLB in the course of the capital market crisis. Standard & Poor's confirmed the short-term rating of A-2 and long-term rating of A-, but with a negative outlook. Moody's lowered its long-term rating for WestLB from A1 to A2 and confirmed the short-term rating at P-1. DBRS left the Bank's ratings unchanged at A (high) and R-1.

On July 18, 2007, the European Commission decided that the capital injected into WestLB between 2002 and 2005 did not constitute state aid within the meaning of Article 87 of the EC Treaty. Thus, the European Commission has confirmed that the provision of capital by WestLB's public-sector owners during this time complied with market requirements.

We successfully completed two long-running projects in the year under review. The EU Markets in Financial Instruments Directive (MiFID) entered into force on November 1st. The MiFID, the primary goal of which is to improve market transparency and investor protection, will serve as the new regulatory framework for Europe's financial markets. A project team consisting of ten working groups with specialists from several different business units and locations had been preparing the new guidelines' implementation at WestLB since January 2006.

The second project involved the introduction of the Single Euro Payments Area (SEPA) as of January 28, 2008. Going forward, SEPA will effectively eliminate any differences between national and international payment transactions within the EU. We succeeded in converting all of our customer accounts to SEPA two months ahead of its official start.

Westdeutsche ImmobilienBank AG (WIB) was admitted into the reserve funds of the Savings Banks and Giro Association of the Rhineland (RSGV) and the Savings Banks and Giro Association of Westphalia-Lippe (WLSGV) on September 20, 2007. This means that WIB is now incorporated as an equal-ranking member directly into the joint liability scheme of WestLB and the savings bank associations in North Rhine-Westphalia. Standard & Poor's lifted its long-term rating for WIB from BBB+ to A- following the admission. In improving the rating, S&P is also acknowledging the successful positioning of WIB as a centre of competence for real estate financing and mortgage bond issues in the WestLB Group.

With business at our subsidiary Banco WestLB do Brasil S.A. expanding, we increased its capital by the equivalent of € 60 million. We also opened a new representative office in Mumbai at the beginning of 2008, re-establishing a direct presence in this fast-growing region.

## Employees

The number of employees changed only slightly in the year under review. WestLB AG employed 4,897 people as of December 31, 2007, 4,654 of whom worked on a full-time basis. At the end of 2006 we employed 4,884 people, with 4,659 working on a full-time basis.

### Training Programmes Expanded

In 2007 we continued our tradition of making substantial investments in the professional and personal development of our employees. We invested approximately € 8 million in skills activities, executive training and counselling, coaching and restructuring-related measures.

### Training at a High Level

A total of 21 apprentices successfully completed their training in the different job profiles at WestLB in 2007, earning top marks in the process. About three quarters of the apprentices engaged in business training were subsequently offered a job within WestLB AG.

In 2007, a total of 42 young persons, eight more than in the previous year, began an apprenticeship in the four job profiles offered at WestLB AG. With the demands on IT professionals continuing to grow, we intend to expand our internal IT apprenticeship programme to include a course of study leading to a Bachelor of Science degree beginning in 2008.

Our trainee programme has become one of the chief ways for promising young individuals to embark on their professional careers with WestLB. In 2007 we hired nearly 50% more trainees than in the previous year. We have added new programme components and increased the international focus of the curriculum. Once again we were able to offer attractive jobs to all trainees who completed their programmes in the year under review.

### Recruiting Young Talent – A Key Accounting Approach

WestLB AG successfully continued its recruiting activities in 2007, focusing its efforts, in particular, on the home region of North Rhine-Westphalia.

In the year under review a total of 110 students completed work experience schemes at WestLB lasting six weeks or longer. Because of the high calibre of these internships, many participants decided to return to WestLB once they completed their education.

In addition, we offered careers as direct hires with the Bank to ten university graduates whom we met at special events like the university graduate conference and job fairs as well as through advancement programmes like CampusCircle.

### Managing Diversity

The goal of our diversity management is to create a work environment where individuality and diversity are valued and encouraged. Our employees should be free to realise their potential and creativity irrespective of age, gender, disability, nationality, cultural or religious identity and sexual orientation.

Diversity forms an integral part of our corporate culture. We believe it is one of our employees' clear strengths and as such deserves our respect and support. One major theme of our diversity-related efforts in 2007 was demographic change and its potential impact on our staff structure. Through our health management system, therefore, we actively contribute to ensuring our employees', especially our older employees', continued viability in the workforce.

### Sustainability and Environmental Management

WestLB continues to act on its commitment to be an exemplary corporate citizen and leader among banks in the area of sustainability. Successful sustainability management, which means taking a balanced view of economic, social and environmental interests, enables us to tap new business fields and structure risks more effectively.

We have an ambitious programme in place for making sustainability principles an integral part of the entire company and its business processes. Together with other leading financial institutions, we were once again honoured by the Financial Times and World Bank subsidiary International Finance Corporation (IFC) for our pioneering work in the area of sustainability in 2007. The 2007 Sustainable Banking Awards singled us out for successfully incorporating sustainability issues into our project finance business and advancing the field of project finance. In 2003, WestLB teamed up with three other banks and the IFC to initiate the development of specific environmental and social standards for project financing. The Equator Principles, as they are known, are a benchmark for many banks today, and more than 50 financial institutions worldwide have officially adopted them.

As a signatory to the Carbon Disclosure Project and the United Nations Global Compact and as a member of the United Nations Environment Programme Finance Initiative (UNEP FI), we have made a voluntary commitment to uphold international environmental and social standards. We are currently working on the implementation of additional in-house standards for socially and environmentally sound business practices, the primary objective being a deeper integration of key sustainability issues into all business areas.

Our resolute focus on sustainable development has enabled us to further expand our market position in renewable energy. Our unique experience in offering products and structured financing to traditional energy providers has proved to be of considerable value in this market segment. External involvement aside, sustainability also factors into WestLB's internal processes, for example in managing our own use of materials and energy. Here, too, we are constantly making improvements. In December 2007 we became "ISO 14001" certified, with special note made of the particular importance we attach to the sustainability of our products. Germany's future e.v., a corporate environmental initiative, and IÖW, an institute for ecological business research, ranked WestLB's 2007 sustainability report, entitled "Asking Questions", first by a substantial margin among companies active in the German financial services sector and fifth overall.

#### Investment and Capital Market Products Geared Towards "Responsible Returns"

Using innovative products like the Open-End Klimawandel-Active-Certificate and the EuroSTOXX Sustainability Open-End Certificate, WestLB is providing its customers with opportunities to invest in products that place equal emphasis on returns and sustainability. Handelsblatt, a leading German business newspaper, ranked our New Energy Active Basket Certificate, which we issued in August 2006, as the best-performing sustainability certificate in 2007, with a performance of 116.54%.

In mid-2007 we launched a product offensive aimed at increasing attractive, socially responsible investment opportunities in the area of climate change. We also customise sustainable investment solutions for our private banking clients. In 2008, we will work closely with Weberbank, a company of the WestLB Group, to offer high net worth private clients and other interested parties the chance to attend a series of events on the topic of sustainability, one feature of which will be the introduction of fresh, forward-looking investment concepts. The strategy employed in managing the WestLB Mellon Werte-Fonds and WestLB Mellon Pension Dynamic funds of WestLB Mellon Asset Management focuses on sustainability criteria. We expect to employ this kind of strategy on a more frequent basis in future.

To be successful, any system of governance geared towards sustainability relies on transparency and information. This is why WestLB maintains a dialogue with outside interest groups and representatives from science and our communities in addition to its regular reporting on the Group's activities. WestLB's sustainability advisory council of high-ranking experts and its "sustainability dialogue forum" serve as vehicles for discussing socially responsible business models and identifying areas where WestLB can break new ground. Both also offer a pool of knowledge built on the exchange of information among participants about economic and social developments, opportunities and risks.

Another pillar of sustainable governance is community involvement. WestLB is well aware of its responsibility to the home market and its citizens. Hence, ensuring the availability of jobs, protecting the environment, promoting culture and helping people in need are part of our understanding of responsible and sustainable action. We donate to several charitable organisations and humanitarian efforts, sponsor events and initiate projects through our foundation entitled WestLB-Stiftung Zukunft NRW.

## Branches, Subsidiaries and Offices of WestLB AG

In addition to the two registered offices in Düsseldorf and Münster, we continue to maintain domestic branch offices in Berlin, Cologne, Dortmund and Frankfurt am Main, as well as subsidiaries in Berlin and Mainz. We also have sales offices in Bielefeld, Hamburg, Munich and Stuttgart.

The business relationships with our major corporate clients and international clients form an important and stable element of our operations, which we continue to build on and tailor to these customers' needs.

We conduct business in Europe through subsidiaries and branches in Budapest, Dublin, Istanbul, London, Luxembourg, Madrid, Milan, Moscow, Paris and Warsaw. Outside Europe WestLB AG maintains subsidiaries and branches in Hong Kong, Johannesburg, New York, São Paulo, Shanghai, Singapore, Sydney, Tokyo and Toronto. Strategically located representative offices bolster our presence in these regions. We opened a new representative office in Mumbai, India.

We continued with our efficiency-enhancing measures and business development efforts in the year under review. Priorities included centralising local settlement functions and focusing on products that create exceptional value.

## Accounting Methods and Reporting Standards

The annual financial statements and statement of financial condition were prepared in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the Pfandbrief Act (PfandBG) and the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV).

## Statement of Income

WestLB's positive business and earnings performance in certain areas of its operations was overshadowed by two events in fiscal 2007. The losses from proprietary trading in spread positions with ordinary and preferred shares, most of which were incurred in the first half of the year, had a negative impact on our bottom line for the full year. In addition, we had to contend with heavy valuation losses in our structured capital market products, particularly in the second half of the year, due to the crisis in the international financial markets.

Against this backdrop, our **profit before taxes** for fiscal 2007 stood in deep negative territory at € – 1,048.1 million (2006: € 501.5 million). This development was largely due to the sizeable net loss from trading operations and the net increases in provisioning for acute credit risks. Our net commission income and result of securities and participations, by contrast, increased. We also further reduced our cost basis. Administrative expenses totalled € 1,347.1 million, which represents a decrease of € 238.2 million from a year earlier.

The resulting **net loss for the year** of € 1,163.6 million will be offset with reserves and proportionally absorbed by the holders of the silent contributions to capital issued in 2003. WestLB's profit participation capital will be serviced in accordance with the terms on which it was issued.

The following presentation of the statement of income is consistent with WestLB AG's internal steering. Accordingly, when securities held in the investment portfolio are written down because of the default risk associated with their issuer, such write-downs are reported as part of the risk provisioning for acute counterparty default risks.

{Statement of Financial Condition}

WestLB AG Statement of Income for the Period January 1 – December 31, 2007

	1. 1. – 31. 12. 2007 € millions	1. 1. – 31. 12. 2006 € millions	Changes	
			€ millions	%
Net interest income	1,301.9	1,443.5	- 141.6	- 9.8
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Result of securities and participations	160.6	- 66.5	227.1	> 100
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<b>Profit/loss before taxes</b>	<b>- 1,048.1</b>	<b>501.5</b>	<b>- 1,549.6</b>	<b>&gt; - 100</b>
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Profits transferred under a partial profit transfer agreement	0.0	- 59.1	59.1	100
<b>Profit/loss after taxes</b>	<b>- 1,163.6</b>	<b>304.6</b>	<b>- 1,468.2</b>	<b>&gt; - 100</b>
Withdrawals from/Amount placed in other reserves from retained earnings	150.0	- 150.0	300.0	> 100
Withdrawals from capital reserves	960.4			
Withdrawals from/Reinstatement of the silent contributions to capital	53.2	- 136.3	189.5	> 100
Distributable profit	0.0	18.3	- 18.3	- 100

### Net Interest Income

Net interest income decreased by € 141.6 million to € 1,301.9 million, chiefly because of a € 237.4 million decline in dividend income received from subsidiaries and other participations. In the previous year we had received dividends from WEB Westdeutsche Beteiligungsgesellschaft mbH as a result of a stock market flotation and from WestLB Beteiligungsholding GmbH as a result of the sale of our shares in HSH Nordbank AG. In addition, our income from shares and other non-interest-bearing securities was down € 51.2 million in 2007. By contrast, there was an increase in income from lending and money market transactions as well as from interest-bearing securities and book-entry securities, which should be viewed in close connection with a decrease in the net income from trading operations.

The interest margin based on the average risk-weighted assets (BIS) decreased by 36 basis points compared with the previous year to 1.59%.

### Net Commission Income

Net commission income rose by 6.6% to € 343.2 million. This gratifying development is mainly the result of increased commission income from our lending and underwriting businesses.

## Net Income from Trading Operations

Net income from trading operations totalled € – 1,477.5 million for the year. The figure reflects losses of € 604.0 million incurred in the first half of the year from our proprietary trading in spread positions with ordinary and preferred shares as well as valuation losses of € 1,130.2 million in connection with the crisis in the international financial markets. Adjusted for these affects, net income from trading operations decreased year on year. This is due to the fact that the result for the previous year included higher income from equities and equity derivatives trading as well as trading in structured interest rate products. In addition, there had been a significant increase in the result from trading in interest rate products in the previous year, with the related expenses reflected in net interest income.

## Other Operating Expenses/Income

The balance of other operating expenses and income amounted to € 44.1 million, which corresponds to an increase of € 37.9 million over the figure for the previous year. The increase is primarily attributable to lower allocations to provisions combined with the reversal of provisions no longer required. Moreover, the year-earlier figure included expenses related to the state aid proceedings and a structured investment transaction.

## Administrative Expenses

Administrative expenses were reduced by € 238.2 million, or 15%, to € 1,347.1 million in the year under review.

Personnel expenses, at € 740.1 million, were 19.3% below their year-earlier level, chiefly because of lower non-linear salary components.

We realised savings of € 61.6 million in other administrative expenses, which amounted to € 607.0 million. The largest contributor here was reduced expenditure on land and buildings following the sale of selected real estate holdings in the previous year.

## Provisions for Credit Risks

The provisions for acute and latent credit risks reflect a net allocation of € 373.3 million. In the vast majority of cases, allocations were made in response to a worsening in the borrower's credit standing, with the sum of € 419.4 million directly linked to the turmoil caused by the financial market crisis. The figure includes write-downs on securities of the investment portfolio due to acute credit risks of € 277.2 million. In the previous year, we had reported a net reversal of € 331.3 million, in part because of the positive impact of changes to our procedures for estimating and making provisions for country risk. Adequate provisions have been made for all discernible credit risks.

## Result of Securities and Participations

The result of securities and participations increased to € 160.6 million and can be broken down as follows:

	1. 1. – 31. 12. 2007 € millions	1. 1. – 31. 12. 2006 € millions	Changes	
			€ millions	%
Result of securities	88.3	– 14.0	102.3	> 100
Result of participations	72.3	– 52.5	124.8	> 100
<b>Result of securities and participations</b>	<b>160.6</b>	<b>– 66.5</b>	<b>227.1</b>	<b>&gt; 100</b>

The chief components in our result of participations were proceeds from sales and the reversal of temporary provisions set up to cover our obligations under such sales.

Our result of securities chiefly reflects proceeds from the sale of securities.

## Dissolution of the Fund for General Bank Risks Formed Pursuant to § 340 g of the German Commercial Code (HGB)

We dissolved the fund for general bank risks formed pursuant to § 340 g of the German Commercial Code (HGB). The balance of the fund was € 300.0 million.

## Taxes on Income and Revenues

Our tax expense, at € 115.5 million, was down € 22.3 million from a year earlier and consisted of € 95.2 million in income taxes charged to domestic operations and € 20.3 million charged to the business of our foreign branches.

## Profits Transferred Under a Partial Profit Transfer Agreement

Pursuant to the terms on which they were issued, no profits will be transferred on the silent contributions to capital (2006: € 59.1 million). A voluntary payment of interest on the silent contributions to capital issued in 2005 will be proposed to the Bank's governing bodies.

## Net Loss for the Year

WestLB is reporting an overall net loss of € – 1,163.6 million for fiscal 2007, which will be offset by withdrawals of € 150.0 million from other reserves from retained earnings and € 960.4 million from capital reserves. The silent contributions to capital issued in 2003 will participate in the loss in the amount of € 53.2 million.

## Balance Sheet and Business Volume

WestLB's business volume stood at € 306.6 billion as of December 31, 2007, down from € 327.3 billion at the end of 2006.

### Assets

	Dec. 31, 2007 € billions	Dec. 31, 2006 € billions	Changes	
			€ billions	%
Cash/Liquid debt issues	1.7	1.5	0.2	13.3
Claims on banks	68.1	83.2	- 15.1	- 18.1
Claims on customers	89.2	89.7	- 0.5	- 0.6
Securities	54.8	46.9	7.9	16.8
Equity investments in affiliated and non-affiliated companies	5.1	4.5	0.6	13.3
Trust assets	0.4	0.4	0.0	0.0
Fixed assets/Intangible assets	0.1	0.2	- 0.1	- 50.0
Other assets	11.9	10.9	1.0	9.2
<b>Total assets</b>	<b>231.3</b>	<b>237.3</b>	<b>- 6.0</b>	<b>- 2.5</b>

### Liabilities

	Dec. 31, 2007 € billions	Dec. 31, 2006 € billions	Changes	
			€ billions	%
Liabilities to banks	111.1	107.3	3.8	3.5
Liabilities to customers	50.1	56.5	- 6.4	- 11.3
Certificated liabilities	47.6	46.9	0.7	1.5
Trust liabilities	0.4	0.4	0.0	0.0
Other liabilities	12.1	14.1	- 2.0	- 14.2
Subordinated liabilities/Profit participation capital	5.2	5.8	- 0.6	- 10.3
Fund for general bank risks	0.0	0.3	- 0.3	- 100.0
Equity capital	4.8	6.0	- 1.2	- 20.0
<b>Total liabilities</b>	<b>231.3</b>	<b>237.3</b>	<b>- 6.0</b>	<b>- 2.5</b>
Contingent liabilities	7.5	9.3	- 1.8	- 19.4
Other commitments/Credit commitments	67.8	80.7	- 12.9	- 16.0
<b>Business volume</b>	<b>306.6</b>	<b>327.3</b>	<b>- 20.7</b>	<b>- 6.3</b>

### Credit Volume

Credit volume at WestLB AG decreased to € 239.5 billion (2006: € 269.6 billion), predominantly because of a drop in claims on banks and irrevocable credit commitments. The reduction in irrevocable credit commitments was mainly due to lower commitments to outside borrowers. Given the situation in the capital markets in the second half of 2007, the volume of new credit business fell short of expectations.

### Credit Volume

	Dec. 31, 2007 € billions	Dec. 31, 2006 € billions	Changes	
			€ billions	%
Claims on banks	68.1	83.2	- 15.1	- 18.1
Claims on customers	89.2	89.7	- 0.5	- 0.6
Contingent liabilities	7.5	9.3	- 1.8	- 19.4
Other commitments/Credit commitments	67.8	80.7	- 12.9	- 16.0
<b>Credit volume carried on the balance sheet</b>	<b>232.6</b>	<b>262.9</b>	<b>- 30.3</b>	<b>- 11.5</b>
Derivatives (credit risk equivalents)	6.9	6.7	0.2	3.0
<b>Total credit volume</b>	<b>239.5</b>	<b>269.6</b>	<b>- 30.1</b>	<b>- 11.2</b>

### Securities Holdings

The total holdings of € 50.3 billion (2006: € 40.5 billion) in bonds and other interest-bearing securities include money market instruments in the amount of € 14.4 billion, bonds and notes in the amount of € 35.5 billion and own bonds in the amount of € 0.4 billion, which are held to keep prices stable. We fund the securities of our investment portfolio, which are carried as long-term investments of the Bank (i.e. valued as fixed assets), almost entirely with matching maturities and currencies, or we hedge them with interest rate derivatives; this is predominantly the case with the liquidity reserve.

The book value of the shares and other non-interest-bearing securities held by WestLB was € 4.5 billion at December 31, 2007 (December 31, 2006: € 6.4 billion). The decline was primarily due to the suspension of proprietary trading in spread positions with ordinary and preferred shares. Moreover, the shares in special funds held in the investment portfolio were dissolved in 2007.

We acquired money market and securities special funds established by Banque d'Orsay S.A., Paris, in an amount of € 3.0 billion.

### Equity Investments in Affiliated and Non-Affiliated Companies

The carrying value of our equity investments in affiliated and non-affiliated companies totalled € 5.1 billion at December 31, 2007 (December 31, 2006: € 4.5 billion). Changes in our stakes in affiliated companies accounted for the bulk of this increase.

Chief among such changes was a contribution in kind to WestLB Orion Limited S.à.r.l., Luxembourg, but there were also capital increases at readybank ag, Berlin, and Banco WestLB do Brasil S.A., São Paulo. The capital at the Brazil-based bank was increased by approximately 157 million Brazilian reais (€ 60 million), a move WestLB hopes will strengthen its business operations in Latin America in general, and Brazil in particular. The purpose of the € 44 million capital increase at readybank ag is a targeted expansion of our retail business.

The merger of WestLB Beteiligungsholding GmbH into WestLB AG constituted one change that reduced the carrying value of our equity stakes.

### Customer and Bank Deposits

Liabilities to banks totalled € 111.1 billion at the end of 2007 (2006: € 107.3 billion), with a higher volume of repurchase transactions driving the year-on-year increase. By contrast, liabilities to customers decreased by € 6.4 billion to € 50.1 billion.

### Issuing Business

Certificated liabilities were largely unchanged and totalled € 47.6 billion (2006: € 46.9 billion) on the balance sheet date.

We issued a total of € 6.2 billion in public-sector Pfandbriefe in the year under review: € 5.2 billion in the longer-term maturity range and € 1.0 billion with a maturity of less than one year.

Following our placement of a € 1.0 billion two-year benchmark Pfandbrief in early 2007 and a five-year jumbo Pfandbrief in June, we successfully placed a public-sector jumbo Pfandbrief in November. Orders for the three-year issue exceeded € 2.0 billion, meaning that it was two times oversubscribed. The Pfandbrief was placed with a broadly diversified base of German and international investors. A total of 65% was sold outside Germany, with 21% being placed in Asia and 12% in Scandinavia. The fact that a share of 35% was acquired by central banks testifies to the high quality of the issue in a time of volatile markets.

Rating agencies Moody's and Standard & Poor's have given WestLB AG's Pfandbrief issues their top ratings of Aaa and AAA, respectively.

We issued a total of € 5.3 billion in unsecured paper in 2007.

### Own Funds

Under the recommendations on capital and reserves of the Basel Committee on Banking Supervision (BIS), WestLB must have adequate capital and reserves to back its operations.

With the entry into force on January 1, 2007 of Germany's Solvency Regulation, we are no longer required to perform capital adequacy calculations using the existing procedures in the run-up to the mandatory implementation of Basel II starting in 2008. However, we elected to continue calculating our capital ratios under the existing methods during the transition period.

Specifically, our capital and reserves must not fall below 8% of the sum of our investment and trading book assets weighted for counterparty default risk and 12.5 times the relevant amount for the market risk positions in our trading book. WestLB AG well exceeded the required capital backing at all times in 2007.

The capital and reserves recognised under BIS consist of core and supplementary capital and Tier III capital. Taking into account the bottom line for the year, these own funds totalled € 7,961.7 million for WestLB AG at December 31, 2007. The breakdown of eligible capital and reserves is depicted in the following table:

	WestLB AG Dec. 31, 2007 € millions after result for the year	WestLB AG Dec. 31, 2006 € millions after result for the year
<b>Core capital</b>	<b>4,644.1</b>	<b>6,173.2</b>
Paid-in capital	2,243.3	2,210.0
Disclosed reserves	1,861.2	2,754.9
Asset contributions of silent partners	666.2	969.4
Fund for general bank risks pursuant to § 340 g of the German Commercial Code (HGB)	0.0	300.0
Intangible assets	- 56.6	- 61.1
Deductions	- 70.0	-
<b>Supplementary capital</b>	<b>3,098.8</b>	<b>4,247.0</b>
<b>Liabile capital</b>	<b>7,742.9</b>	<b>10,420.2</b>
<b>Tier III capital</b>	<b>218.8</b>	<b>10.0</b>
Unused Tier III capital	0.0	0.0
<b>Own funds/Eligible capital and reserves under BIS</b>	<b>7,961.7</b>	<b>10,430.2</b>

The sum of € 150.0 million was taken out of reserves from retain earnings and the sum of € 960.4 million from capital reserves in order to cover the net loss for the year.

The remaining € 53.2 million was withdrawn from the silent contributions to capital issued in 2003, interest payments on which have been suspended.

The fund for general bank risks formed pursuant to § 340 g of the German Commercial Code (HGB) was dissolved in its entirety. With respect to contingency reserves formed under § 340 f of the German Commercial Code (HGB), we set aside the sum of € 51.1 million.

The profit participation rights and subordinated liabilities of WestLB AG included in the capital and reserves calculated for regulatory purposes satisfy BIS requirements. There can be no early repayment obligation on the subordinated liabilities. In the event the Bank goes bankrupt or is liquidated, profit participation rights and subordinated liabilities will not be repaid until all unsubordinated claims have been satisfied.

The supplementary capital includes € 759.6 million in profit participation capital and € 2,565.7 million in subordinated liabilities. The profit participation capital and subordinated liabilities have been serviced in accordance with the terms on which they were issued.

The following ratios were determined at December 31, 2007, taking into account eligible capital and reserves pursuant to BIS guidelines:

#### Risk-Weighted Assets and Equity Capital Ratios Pursuant to BIS

	WestLB AG Dec. 31, 2007 € millions after result for the year	WestLB AG Dec. 31, 2006 € millions after result for the year
Counterparty default risks	82,252	73,303
12.5 x the relevant amount for market risk positions	3,688	2,925
<b>Total</b>	<b>85,940</b>	<b>76,228</b>
Core capital ratio	5.7	8.4
Credit risk capital ratio	9.4	14.2
Equity capital ratio	9.3	13.7

## Risk Report

### 2007 U.S. Subprime and Financial Market Crisis

#### Background, Market Developments

In the years leading up to 2007, the U.S. mortgage market was booming, thanks to rising home prices, favourable financing conditions and global financial market innovations in the area of structuring and securitisation which made it possible to transfer credit risks to a multitude of investors. Substantial market liquidity and the growing demand for high-yield structured products nourished the trend.

This market environment experienced a fundamental shift in 2007. With interest rates on loans rising and house prices falling at the same time, borrowers found themselves unable to make their payments. The number of residential foreclosures in the U.S. rose abruptly and accelerated the decline in home prices. Since the underlying loan receivables had been securitised and were held by a large number of international investors, the situation broadened to the rest of the world. Purchasers of mortgage backed securities (MBSs) suffered considerable financial losses, as did investors holding collateralised debt obligations (CDOs), which offered security interests in a large pool of MBSs in addition to loan receivables.

Uncertainty about whether and to what degree additional market players and asset classes would be affected by the risks forced banks to reduce loan offers further, making credit products less liquid, and to raise interest rates. This development also affected the ability of structured investment vehicles (SIVs) and asset-backed commercial paper (ABCP) conduits to cover their short-term funding needs through the issuance of commercial paper. The impending loss in value of the MBSs and CDOs used as collateral diminished investor interest in commercial paper issues. Hence, despite the shaky markets and default risks, sponsoring banks intervened with, among other measures, short-term refinancing facilities to ensure sufficient liquidity.

The higher write-downs by banks and investors, support provided to sponsored SIVs and resulting confusion surrounding earnings expectations made the stock market even more volatile. The lack of clarity about the true extent of the subprime mortgage crisis and its impact on the economy caused stock markets the world over to tumble. Shares of companies active in the financial services sector, in particular, traded lower.

In time, the precarious state of the credit market and MBS/CDO market spread to other segments of the asset-backed security (ABS) market. For example, investors whose ABS holdings included commercial mortgage-backed securities (CMBSs) or credit card receivables also faced substantially elevated risks.

As the crisis in the financial market continues, rating agencies are constantly revising their assessments and downgrading ABS/MBS/CDO issues in accordance with the quality of their cover pool. Rating migrations squeeze market and valuation prices and reduce the market's liquidity. No end to the crisis is currently in sight.

#### Active Risk Management

In response to the considerable market deterioration and growing illiquidity triggered by the U.S. subprime and financial market crisis in the summer, WestLB set up an interdepartmental task force which reports directly to the Managing Board. The purpose of the task force is to steer centrally all liquidity and risk effects stemming from our positions in SIVs, ABCP programmes and other structured credit investments with exposure to the U.S. real estate markets. The task force worked quickly and efficiently to recognise any potential adverse effects of the global credit and liquidity crisis as early as possible and to introduce risk-reducing measures swiftly. Credit approval processes for the products affected by the crisis were also adjusted, thus ensuring the Bank's ability to make decisions and contain risks on a centralised basis.

## Liquidity Management

Taking into account our liquidity risk strategy, we tackled the challenges of tight liquidity with a system of centrally controlled, active liquidity management and liquidity-driven asset-liability steering, thus ensuring that sufficient liquidity was available to the Group at all times in 2007. Broadening the refinancing base and continuing our long-dated issue programme are two ways we secure the Bank's liquidity, but we also have a liquidity reserve in the form of a portfolio of securities which can be sold at short notice or deposited as collateral with central banks. In light of the market situation, we also stepped up our use of conservative stress tests and scenario analyses as a means of identifying possible liquidity bottlenecks and facilitating the implementation of appropriate liquidity-enhancing measures.

## Portfolio Valuation and Limiting

The Market Risk Management unit enhanced our existing models and valuation methods for complex credit products given the illiquidity of the markets and resulting lack of pricing transparency and also implemented more sophisticated expected loss methods. The result is a multi-tiered valuation strategy. The goal of the strategy is to draw on all available sources of valuation-relevant information and to arrive at the most plausible valuation by comparing the results produced by different approaches under the given market circumstances. First, we gathered information about market prices to the extent such prices were readily accessible and seemed reasonable. If no quoted prices were on hand, we used mark-to-model valuation techniques. Our next step was to test the prices determined for impairment. The impairment analysis involved determining the expected loss on each position under the extreme market conditions pertaining at the time. We then compared the market price or ascertained value before and after the expected loss and, in most cases, chose the more conservative of the two figures. Finally, we checked the individual values for the entire portfolio one more time using an alternative mark-to-model technique which assigned each security a market spread based on its asset class and rating. In the case of super senior tranches of CDOs, our valuation "looked through" to the underlying assets. Our strategy yields a portfolio valuation which is fair and makes reasonable allowances for the existing market situation.

The use of additional risk parameters beyond our value-at-risk limiting for market price risks helped us maintain the required transparency. We expanded our application of conservative stress testing and scenario analyses in order to assess the impact of product and portfolio-specific market and credit risks in extreme situations. Our system infrastructure and management information system were also adapted in line with market dynamics.

## Summary and Outlook

The U.S. subprime mortgage and financial market crisis dominated 2007 and created an extremely challenging situation in the capital markets. Market players were surprised by the length of the crisis, but perhaps even more shocked by its unexpected magnitude. The illiquidity which proceeded to seize the markets severely limited their options, leaving them unable, despite the proactive measures taken, to cushion the impact on their results and capital base to any appreciable degree.

We have always considered our standard set of instruments (e.g. stress tests) to be a reliable means of indicating the losses we could suffer in the event of a credit crisis, such as the 1997/1998 Asian crisis and 1998/1999 Russian crisis. However, the duration and scope of the present financial market crisis and observed correlations between risk types have never existed in this combination. The market turmoil has affected numerous asset classes and necessitated a revaluation of the corresponding balance sheet items. What is more, with a limited, and in some cases complete, loss of the ability to place positions from asset-backed commercial conduits and similar vehicles, the emerging crisis of confidence has resulted in a long-term increase in banks' refinancing costs. Against the backdrop of current developments, we will continue to improve our risk management system in 2008 using the insights gained from the subprime and financial market crisis.

## Risk Report – General Section

The goal of WestLB's risk management system is to meet the highest standards possible. In general, our processes and procedures enable us to detect and appropriately counteract undesirable risk developments at an early stage. The limits of these processes and procedures were revealed in the course of the U.S. subprime and financial market crisis in 2007. In 2008 we will work diligently on improving them.

After completing the Basel II audits concerning our use of the Advanced Internal Ratings Based Approach (AIRB) for credit risks and the Advanced Measurement Approach (AMA) for operational risks in 2007, BaFin notified WestLB in December that it had been approved to use the advanced approaches on a provisional basis as of January 1, 2008. WestLB expects BaFin to issue its final approval for our use of these methods in the first quarter of 2008. These approvals underscore the quality of our risk management procedures, methods and processes.

We have also largely implemented the new regulatory requirements under the Minimum Requirements for Risk Management (MaRisk).

Since WestLB's risk management is geared towards the WestLB Group, the figures presented in this Risk Report basically refer to the Group as a whole. Any figures referring explicitly to WestLB AG are clearly identified as such.

## Principles of Risk Management

The following principles form the basis of our risk management system:

We define our risk profile in terms of our risk tolerance. The Managing Board determines the risk tolerance and the related risk strategies in agreement with the Supervisory Board.

The risk management processes ensure that the risk profile is transparent and can be managed with a great degree of foresight. The core processes of risk management are determining, monitoring, analysing, steering and reporting on the Group's risks.

Risk management is part of the overall management of the Bank. Thus, we view risk, reward and capital requirements holistically.

The responsibilities of the governing bodies, committees and divisions are clearly defined. Risk management is performed independently of the front office units.

Our organisational structure, risk processes and measurement and steering procedures are aligned with these principles.

## Organisation

The Managing Board is responsible for Group-wide risk management. It determines the principles of our risk policy and risk management in close communication with the Supervisory Board's risk committee and regularly reports to this committee in detail about the Group's risk situation.

## Committees

The Managing Board has set up a series of committees which span the various divisions and business units of WestLB and reflect the Managing Board's functions and areas of responsibility. These committees, set out below, are responsible for Bank-wide risk steering.

The Asset Liability Committee (ALCO) is in charge of planning and managing structural liquidity and the structure of the balance sheet as well as allocating economic and regulatory capital in the Group.

The Global Risk Committee (GRC), which is chaired by the Chief Risk Officer (CRO), is tasked with ensuring the strategic development of the Bank's risk management function in line with the business and risk strategies of the WestLB Group. This includes planning, limiting, monitoring and reporting on banking risks throughout the Group in light of the rules and regulations of the supervisory authorities.

The following committees have been designated as sub-committees of the GRC:

The Credit Committee (CC), which reports directly to the Managing Board, is the ultimate approval authority for all credit applications, proposed equity investments and equity-like transactions, unless regulatory provisions or other rules require a decision by the full Managing Board or Supervisory Board. The Credit Committee is also responsible for the central management of country limits.

The Credit Portfolio Committee (CPC) assumes Bank-wide responsibility for managing the credit risks at portfolio level.

The Economic Capital Committee (ECC) decides about the processes, parameters, methods and management approaches associated with Basel II and economic risk capital and coordinates their implementation. By doing so it establishes the framework for our risk management.

The Market Risk Committee (MRC) monitors all market price risk positions, taking into account the risk analyses performed by Market Risk Management. MRC assesses the overall market risk situation, paying particular attention to risk concentrations, limit requirements and new transactions with atypical structures.

The New Product Approval Committee (NPAC), which is in charge of the Group-wide process for approving new products, operates under the MRC. MRC receives regular reports about important decisions on new products and related topics.

Local OpRisk Committees in London, New York, Singapore (for the Asia-Pacific region) and Düsseldorf (for all of Europe) are responsible for raising awareness about operational risks. They also provide a platform for systematically sharing information about actual incidents within the WestLB Group and at other companies. Results are reported to the GRC by Operational Risk Management.

The business units support the committees in their work.

Changes to the committee structure based on Basel II are in the planning phase.

## Units

The Chief Risk Officer (CRO) assumes responsibility at the Managing Board level for the following units, which are organisationally independent of the front office:

The Economic Capital unit of Group Risk Management (GRM) is in charge of the risk tolerance concept (WestLB Capital Adequacy programme, WestCAP). In this connection GRM makes certain that the Group's risks are adequately reflected in its economic risk capital. GRM is also responsible for pushing ahead with the implementation of key requirements from the

second pillar of Basel II, ensuring the reflection of participation risk in economic risk capital and guaranteeing the independent monitoring of liquidity risks. The Bank-wide analyses performed by GRM result in an integrated risk report which is submitted to the Managing Board and supervisory bodies of the Bank at regular intervals. The regulatory reporting function was assigned to GRM effective November 2007 with the aim of concentrating the oversight of risk steering for both internal and external purposes within one unit. One of the major tasks of the Regulatory Reporting unit is the preparation of notices pursuant to supervisory legislation such as the German Banking Act (KWG), Liquidity Regulation, Solvency Regulation, the Large Exposure Regulation (GroMiKV) as well as the Foreign Trade and Payments Act and Foreign Trade and Payments Regulation (AWG/AWV).

Credit Risk Management (CRM), which is divided into Sector Coverage (CRM-SC) and Products & Portfolio Management (CRM-PPM), steers and monitors the risks in the lending business and represents WestLB's back office for purposes of MaRisk.

CRM is responsible for operational lending tasks, which primarily include risk analysis and approval at the individual commitment level (rating calculations and providing the second vote on credit applications), as well as monitoring compliance with the limits set.

CRM also deals with fundamental questions relating to the lending business. Its major tasks in this regard are method-related, i.e. setting standards in the lending business, implementing regulatory requirements, as well as developing and improving internal rating systems.

Furthermore, CRM manages the Group's global loan portfolio and prepares the related credit risk strategies.

Market Risk Management (MRM) analyses, monitors and steers risks from the WestLB Group's trading business. It is part of MRM's responsibility to review the measurement methods suggested by the trading units and enhance the internal risk models for calculating market price and counterparty credit risks. MRM also establishes and arranges the necessary monitoring processes and creates measures-based reports on the risks arising from the trading business.

Operational Risk Management (ORM) defines the framework for managing operational risks. ORM ensures that operational risk management activities are consistent throughout the Group, provides an opinion on operational and reputational risks and advises the Group's business units. This ensures that the analysis, measurement, steering and monitoring of operational risks meet uniformly high standards of quality. In addition, the ORM unit helped coordinate the AMA (Advanced Measurement Approach) audits conducted by banking regulators in 2006 and 2007.

In addition to the business units under the CRO's responsibility, the following business units contribute to the Group's risk management in a broad sense:

Group Treasury (GT) is in charge of the WestLB Group's refinancing strategy and manages daily liquidity flows within the limits set by the relevant committees.

GT also manages the interest rate and currency risks of the banking book within risk limits and executes all transactions related to the procurement of equity and debt capital.

GT has access to the market, prepares ALCO's meetings and implements the decisions ALCO makes about steering the liquidity, balance sheet structure and capital.

Group Audit is an independent entity which reviews all business processes, as well as the Group's risk management and internal control system, for their appropriateness, effectiveness and efficiency. In this way it contributes to protecting the Group's assets, improving its business processes and complying with regulatory requirements. Instructions from the Managing Board, together with statutory and regulatory guidelines, have the largest bearing on Group Audit's work. Audit results are provided to the Managing Board and the relevant business units. Group Audit also monitors the handling of objections to audit results as part of an institutionalised process.

The Legal unit offers advice and support for a variety of tasks related to risk management, including collateral agreements.

Group Compliance protects the Bank's integrity and reputation by promoting the lawful and proper conduct of business in the interests of customers, employees and shareholders. It also monitors and ensures regulatory compliance in order to prevent violations and identify them should they occur.

### Risk Tolerance as a Benchmark for the Risk Profile

The starting point for risk steering is the risk tolerance determined by the Bank's Managing Board and owners using WestCAP, which satisfies the requirements of Basel II/Pillar 2 for an Internal Capital Adequacy Assessment Process, or ICAAP.

As of December 31, 2007, the primary source of our risk-taking capacity was Tier 1 capital. Risk tolerance reflects the scope of risk sought and limits, as an enterprise-wide value, the amount of risk the Bank can assume. The usage of risk tolerance is determined via economic risk capital.

## Consistent Risk Measurement Through Economic Risk Capital

Economic risk capital is a means of measuring unexpected losses. It represents the amount of capital which for a given probability would be needed within one year to cover unexpected losses on positions involving a risk of loss. The risk capital in each category is determined for a confidence level of 99.95%, which is line with a target rating in the A range. The economic risk capital for counterparty default, participation, market price, tax and operational risks is calculated on the basis of value-at-risk (VaR) approaches. We calculate the figure for Bank-wide risk across all risk categories by taking the diversification effects between the risk types into account.

WestLB AG Group	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Counterparty default risk	2,915	2,659
Market price risk	372	246
Participation risk	507	600
Operational risk	211	272
Tax risk	122	0
<b>Total</b>	<b>4,127</b>	<b>3,777</b>
<b>Risk tolerance*</b>	<b>6,077</b>	<b>6,400</b>
<b>Usage (%)</b>	<b>68</b>	<b>59</b>

\* Risk tolerance prior to effects from the annual financial statements. Including these effects, the usage was 98%.

- We determine the economic risk capital for our counterparty default risk using an advanced version of the CreditRisk+™ model. We introduced a new credit portfolio model in January 2008.
- The economic risk capital figures for our market price risk are derived using the same internal risk model (value-at-risk method) used for calculating our regulatory capital charges.
- The model used to capture our participation risk is based on a modified PD/LGD approach.
- We calculate our operational risk using the WestLB AMA (Advanced Measurement Approach) model, a value-at-risk method based on a loss distribution approach.
- We calculate the economic capital required to cover our tax risk for certain structured transactions using a Monte Carlo simulation technique.

Using a variance-covariance approach, we combine the values for the individual risk types into one Bank-wide value-at-risk figure, taking into account the correlations between the different risk types. We regularly subject this method and the diversification effect determined to a benchmarking analysis.

Starting in 2007, the year we adopted IFRS for our consolidated financial reporting, the undisclosed reserves which we used to report in our HGB Group accounts were eliminated as a source of risk-taking capacity. The projected net income as of December 31, 2007 has also been eliminated. The latest category, tax risk, was added to the risk tolerance as of May 2007.

#### Integrated Risk and Return Planning and Management

During annual budgeting, the business units plan their regulatory and economic risk capital requirements on the basis of the business strategy. The determination of these capital requirements is related to earnings targets, which themselves stem from the returns the Bank's owners expect.

This value creation concept of Bank-wide risk steering thus links the risk capital requirements and related capital costs with the risk-adjusted return, with the value created representing the return obtained in excess of capital costs. All in all, this concept allows for better analysis of our business units, customer relationships and products on a risk-adjusted basis.

#### Active Management of the Risk Profile

ALCO allocates risk capital limits per risk category and per organisational unit based on the results of the budget process and on the risk tolerance which has been set.

To manage our portfolio's structure, we use, in addition to economic risk capital, specific VaR limits for trading risks as well as limits for single-name concentrations and industries.

The overall economic risk capital limits set by the Managing Board for the various categories of risk were adhered to without exception in fiscal 2007.

#### Market Price Risks

Market price risks are the result of uncertainty about price changes and volatility in the financial markets as well as correlations which exist between different markets.

We use the value-at-risk method (VaR method) to quantify market risks from trading transactions in the trading and banking books and to make them comparable with each other across markets and products. Our VaR model takes into account interest rate, equity price and currency risks (including commodity price risks) as well as the volatility risks associated with each market. There are two components of equity price and interest rate risk: the general risk posed by overall market movements and specific risks related to issuers.

In general, our value-at-risk calculations are based on the Monte Carlo simulation technique, which we believe to be a suitable technique considering the complexity of our trading transactions.

In 2005, the Federal Financial Supervisory Authority (BaFin) approved the use of our VaR model to determine the regulatory capital required to back the general and specific market price risks in our trading book as well as the foreign exchange risks in our banking book. For internal purposes, we have been determining the VaR for a confidence interval of 99% and a holding period of one day. For external regulatory purposes, a holding period of ten days is assumed.

The VaR approach forms the basis for calculating the economic risk capital necessary to cover the market price risks from the risk positions in our trading and banking books. When calculating the required economic risk capital for our trading positions, we take into account that these positions are actively managed throughout the year. For daily monitoring of the market price risk positions, we derive risk limits from the Bank's risk tolerance and assign them to the responsible organisational units.

The following table shows the aggregate market price risks from the WestLB Group's trading book:

VaR in € millions* (confidence interval of 99%, holding period of ten days)	Interest Rate Risk**	Equity Price Risk***	Currency Risk (incl. Commodity Prices)***	Total	Previous Year
	2007	2007	2007	2007	2006
Year-end	62.3	23.4	4.4	83.6	64.6
Maximum	62.3	73.6	21.5	93.8	79.3
Minimum	14.3	19.9	2.7	34.8	43.3
Average	23.7	34.0	5.3	56.3	55.0

\* Including Harrier and Kestrel, SIVs consolidated as of year-end (in accordance with WestLB's investment quota in them), Greyhawk and positions in the Orsay Euribor Plus and Orsay Sécurité SICAV funds.

\*\* Based on the variance-covariance method

\*\*\* Monte Carlo method

We experienced a steady increase in the interest rate risk in our trading book in the second half of 2007. This increase was closely related to the U.S. subprime mortgage and financial market crisis in that heightened market volatility and the related adjustments to the risk factors in our VaR calculation caused the value at risk on our positions in the affected market segments to rise. The steps we were forced to take in order to support our special purpose vehicles also added to our interest rate exposure.

The value at risk on our equity positions fluctuated considerably in 2007, chiefly because of the implementation of exit strategies with respect to our spread positions in ordinary and preferred shares.

Market price risks in the banking book are also managed, limited and monitored on a daily basis using the VaR approach.

The following table shows the aggregate market price risks from the WestLB Group's banking book:

VaR in € millions* (confidence interval of 99%, holding period of ten days)	Total	
	2007	2006
Year-end	292.7	67.1
Maximum	292.8	95.7
Minimum	67.0	60.5
Average	137.5	77.0

\* Including Harrier and Kestrel, SIVs consolidated as of year-end (in accordance with WestLB's investment quota in them), Greyhawk and positions in the Orsay Euribor Plus and Orsay Sécurité SICAV funds.

The credit spread risk is the largest market price risk in our banking book. Nearly all of it stems from positions with a good credit rating (e.g. in the investment grade range).

The sizable increase in the value-at-risk figures for our banking book is largely the result of the market volatility described above.

Our VaR risk model meets high standards. We regularly subject it to extensive validations and continually improve on its risk measurement methods, paying special attention to the requirements of new products and business strategies as well as evolving market conditions.

The relevant market risk positions are back tested on an ongoing basis pursuant to the guidelines of German banking regulators, which means that the potential changes predicted by the VaR model are compared to the actual changes seen in market values from one day to the next.

The results from back testing in 2007 gave no indication of any weaknesses in our VaR model.

To complement our VaR calculations, Market Risk Management (MRM) also performs weekly stress tests which assess what would happen to our risk positions if subject to extreme market events. In crafting the underlying market scenarios, MRM analyses the relevant risk positions themselves as well as economic developments and expectations. Stress tests help predict the potential losses which extraordinary market conditions could cause. When circumstances require, MRM can use them to introduce risk-reducing measures at an early stage.

The Bank distinguishes between three types of standard stress tests:

- historically based scenarios (e.g. a liquidity crisis)
- hypothetical scenarios (e.g. an increase in oil prices)
- parametric scenarios (e.g. parallel shifting and inversion of interest rate curves)

Additional stress tests are conducted in order to examine specific product risks, such as correlations. We also perform ad hoc stress tests for selected portfolios in the case of special market situations.

In 2007, for example, we added special stress scenarios which assumed drastic changes in credit spreads and stock prices to the analysis of our risk positions.

Value-at-risk methodology helps to portray standard market risks (interest rate, equity price and currency risks), but it does not capture other potential risks from trading operations such as liquidity, concentration and correlation risks or risks relating to digital products.

Market Risk Management regularly analyses our trading business in order to identify and assess risks which are not captured or only partially captured by the use of VaR methodology. If the risks are material, we develop and implement measures to monitor and limit them.

One of the core tasks of the risk management system is to create transparency across all risks and to make sure that information pertaining to the risks is provided to the proper parties on a timely basis.

MRM informs the relevant trading units, the CRO and the responsible Managing Board members daily about the VaR, utilisation of the corresponding limits and any current developments which could affect risk and return planning. MRM initiates measures aimed at reducing or diversifying the market risk positions and reports on their execution.

The full Managing Board receives a report about the WestLB Group's market risk positions each month. VaR, sensitivities and stress test results are viewed holistically and discussed and analysed in light of developments on the financial markets.

For WestLB, 2007 was dominated by the events surrounding its proprietary trading activities in spread positions with ordinary and preferred shares as well as by the U.S. subprime and financial market crisis. No capital market player, WestLB included, expected the subprime and financial market crisis to last as long as it has or, in particular, to have such a considerable impact on asset valuations and refinancing costs. The standard market risk management instruments we have at our disposal, in combination with the ad hoc measures we initiated, effectively and appropriately contributed to our ability to analyse, process and portray the respective risk situations. Armed with the knowledge we have gained about the duration, magnitude and severity of the financial market crisis, we will review and implement enhancements to these standard tools in 2008.

## Counterparty Default Risks

Counterparty default risk is defined as the risk of potential losses caused by a business partner's failing to meet one of its contractual obligations. It includes the classic credit risk, as well as issuer, counterparty and country risks.

WestLB Group steers its counterparty default risk in keeping with the credit risk strategy. Our state-of-the-art system of loan portfolio management is designed to maintain the quality of our loan portfolio going forward.

Using the Bank's business strategy and risk-bearing capacity as starting points, the overarching credit risk strategy establishes the Bank's risk steering principles and risk profile. Overall portfolio limits and structural targets for single names, industries and regions form an integral part of this strategy. They prevent unbalanced portfolio movements and concentrations and ensure an even distribution of risk. Specific risk strategies track the direction of our lending activities with respect to individual customers, products, sectors and regions and maximise our risk-adjusted returns. The Managing Board and risk committee of the Supervisory Board review the credit risk strategy at least once a year, bearing in mind changing external conditions, as well as new internal strategic guidelines. Based on our experiences from the subprime and financial market crisis, we will add additional industry-specific and asset class-specific risk parameters to our structural guidelines.

### Measuring the Counterparty Default Risk

We calculate the economic risk capital associated with our counterparty default risk by using an advanced version of the CreditRisk+™ model widely used in banking. This model also facilitates the portrayal of concentration and diversification effects between industries and regions.

The amount of capital utilised to cover our counterparty default risk depends on the credit rating of our borrowers as well as any single-name, industry and regional concentrations in the portfolio. This information is important for determining an appropriate risk-return profile and achieving the desired level of diversification and granularity among counterparty default risks – in both portfolio management (single-name, industry and regional concentrations) and pricing.

The improvements we made in 2007 to our internal systems for measuring counterparty default risks and the resulting economic capital charges focused on the following areas:

- Development of four new rating methods for securitisations, all of which regulators have already reviewed in the context of our election to use the internal assessment approach (IAA) under Basel II to calculate the capital charges for our securitisation exposures.

- Introduction of a rating unit concept which, by creating transparency about risk relationships, will improve risk steering and simplify processes at the same time.
- Implementation of a highly advanced methodology for estimating the risk posed by funds in conjunction with the ongoing improvement and revision of our existing methods for estimating the parameters which form the basis of our internal and external capital adequacy calculations.
- Development of a new credit portfolio model which captures, in addition to pure default risks, the risk of changes in value posed by rating downgrades. The new model, which was launched in January 2008, is based on Moody's methodology for parameterising asset value correlations and is also capable of adequately representing complex transactions and securitisations.
- Research on the addition of global downturn and industry-specific scenarios to our range of stress tests in order to predict the losses and increased capital requirements resulting from a stress-based, sustained deterioration in the portfolio's risk profile.

#### Managing Individual Risks

The analysis, evaluation, monitoring and steering of counterparty default risks are based on documented, uniform Bank-wide standards for counterparty credit risk management. The two main pillars are the credit approval process and the ongoing monitoring process.

Each new transaction with a customer, as well as any material change involving an existing commitment, is subject to approval by the responsible approval level.

Credit approval is based on a thoughtful risk assessment of the overall exposure with a particular customer, which is then presented in a loan application. An integral component of this application is the internal rating, for which both quantitative and qualitative factors are systematically examined. The approval process incorporates the current risk strategy, portfolio characteristics and risk-return considerations.

The monitoring process is a core task of CRM, which is supported in its work by the front office units. All credit commitments are monitored on an ongoing basis. The monitoring intensity depends on the respective borrower's current risk situation. A credit monitoring file is prepared on each borrower at least once a year. The Bank also has procedures in place which allow early identification of loans that might be subject to an increased default risk. Our early warning system aims to identify potential performance problems at an early stage and counteract them, as long as scope for appropriate measures exists.

## Portfolio Management

CRM initiates measures for managing credit risk positions, taking Group and portfolio aspects into consideration. It also performs the ongoing credit risk monitoring at the portfolio level and works centrally across all individual business units to limit credit risks, particularly concentration risks. One way we measure concentration risk is by looking at the respective usage of economic risk capital. Another way is by means of a special early warning system which captures changes in market data from one day to the next and provides up-to-the-minute information on growing risks in the global loan portfolio. Measures necessary for reducing risk are thoroughly reviewed before being introduced.

Various instruments and techniques are used to improve the diversification of the loan portfolio, among them credit derivatives and loan sales, portfolio transactions as well as stringent management of new business.

Global measures implemented in 2007 included:

- Managing and reducing single-name concentration risks.
- Improving the limiting of concentrations (single names, industries, regions and rating classes) in the context of the credit risk strategy and introducing risk capital-based guidelines for single-name concentrations.
- Honing a concept for risk-return-adjusted industry portfolios, taking into account the available risk tolerance.
- Intensifying risk-adjusted return management, particularly of new business.

On the whole, we ensured an adequate diversification of the loan portfolio with respect to counterparties at all times.

## Default Risk from the Portfolio Perspective

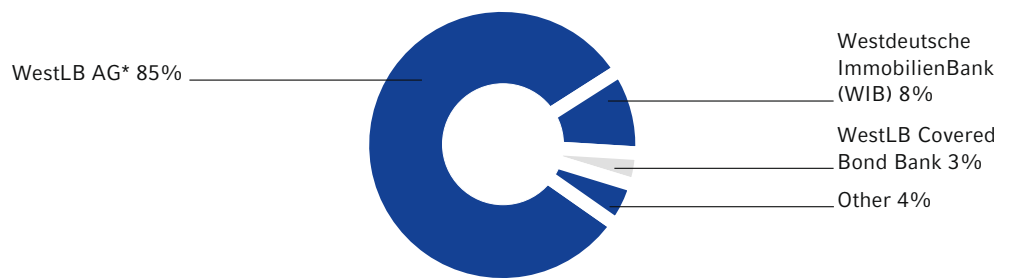
We regularly collect data about the volume of default risk in our Group and prepare detailed assessments. The goal is to identify, analyse, evaluate and steer the risks in our portfolio. For internal steering purposes, we regularly analyse the volume of default risk by risk type, rating class, industry, maturity, region, commitment size and collateral as well as by the business unit which is accountable for the returns on the respective exposures. We then use these parameters to create a portfolio analysis which identifies risk concentrations and serves as the basis for determining measures.

When measuring the volume of default risk in our portfolio we look at all counterparty default risks. The types of risk include:

- credit risk, which essentially covers conventional loans, money market transactions and guarantees,
- issuer risk from securities positions,
- pre-settlement risk from OTC derivatives and repurchase agreements (the risk of loss from having to replace a transaction at the prevailing market rate because of a counterparty's failure to meet its obligations),
- other risks.

The following analyses of the default risk volume in our portfolio take the counterparty default risks of the entire Group into account.

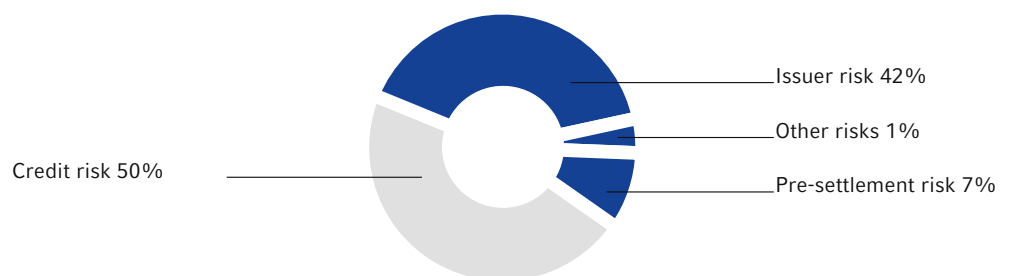
**Breakdown of Total Lines**  
WestLB Group at December 31, 2007



\* The SIVs, ABCP conduits and funds consolidated in the course of 2007 are accounted for in the figure reported for WestLB AG.

We manage the counterparty default risks at Group level. Within the Group, 85% of total lines are attributable to WestLB AG, which means that the Group portfolio details discussed below also apply basically to WestLB AG.

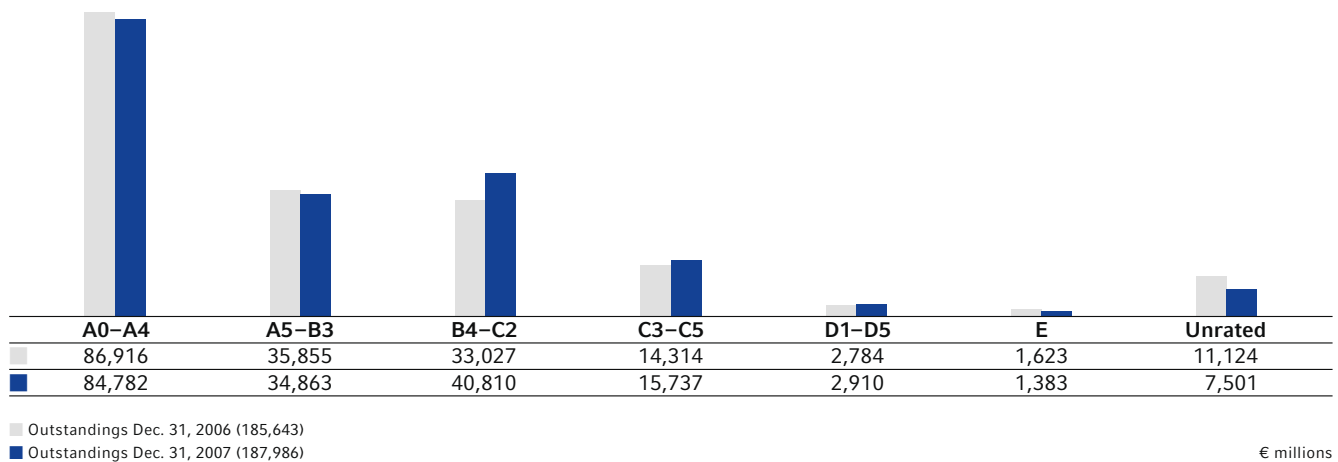
**Breakdown of Outstandings by Risk Type**  
WestLB Group at December 31, 2007



Credit risk and issuer risk make up the vast majority of our counterparty default risk. Issuer risk captures the risk relating to securities held in both the investment and trading book, with 50% of the relevant outstandings being carried in the investment book and 50% in the trading book.

Compared to December 31, 2006, the breakdown of outstandings by risk type is nearly unchanged.

#### Breakdown of Outstandings by Rating Class (WestLB Group)

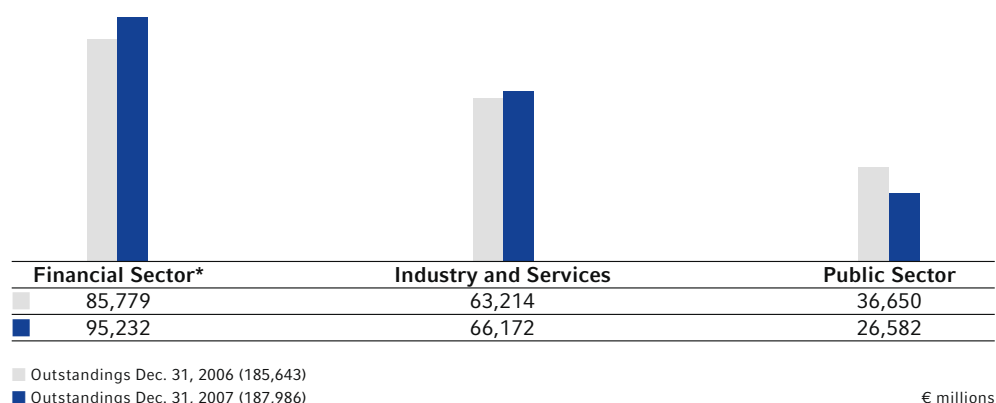


The above chart captures the overall portfolio's outstandings as of December 31, 2006 and December 31, 2007 for the internal rating classes making up our internal Basel II-compliant rating scale. Until July 2007 classes A0 to C3 represented WestLB's investment grade range. Due to the frequent addition of improved methods for assessing default probability and global changes in actual default rates, we redefined our investment grade range as encompassing rating classes A0 to C2. This change will prove extremely beneficial to our strategy of steering the customer business in a way which focuses on returns while also being firmly rooted in a robust risk culture.

At December 31, 2007, 89% of the rated portfolio was investment grade. Assuming an investment grade range of A0 to C2, 89% was investment grade at December 31, 2006 (the corresponding amount using the previous definition of investment grade was 93%).

A total of 47% of the rated outstandings carry a strong rating of A0 to A4, with the bulk of these outstandings representing draws by banks, governments as well as central, regional and local authorities. Loans to our corporate clients, most being syndicated loans, represent 38% of our outstandings with mid-range ratings of A5 to C2.

### Breakdown of Outstandings by Sector (WestLB Group)

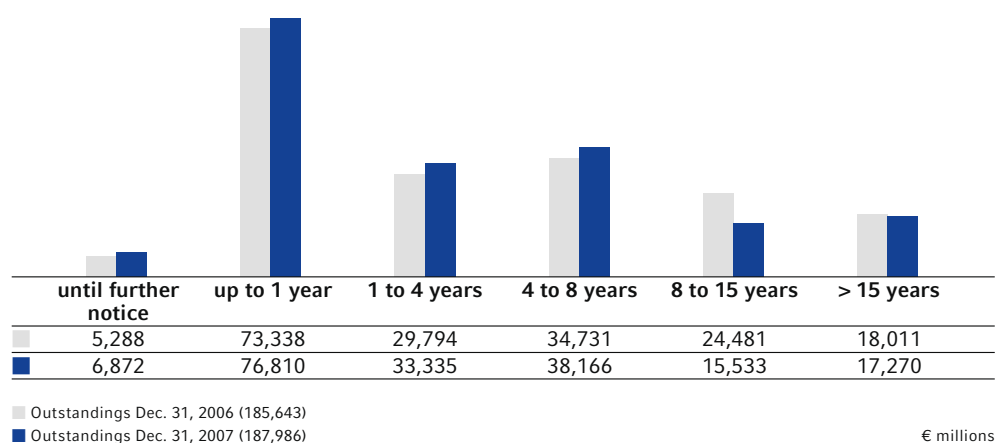


\* including ABS and other types of transactions

Our unrated outstandings decreased by 33% from a year earlier. About one-quarter of the unrated outstandings as of December 31, 2007 were collateralised. Commitments to financial sector and public sector customers with good ratings continue to make up a substantial part of the portfolio. The combined share of the two sectors is 65% (December 31, 2006: 66%).

The share attributable to industry and services, which consists of 15 individual sectors, rose slightly, up from 34% at December 31, 2006 to 35% at December 31, 2007. We have set specific limits for four of the individual sectors (construction and real estate, energy supply, aviation and telecom) and regularly monitor these limits.

### Breakdown of Outstandings by Maturity (WestLB Group)

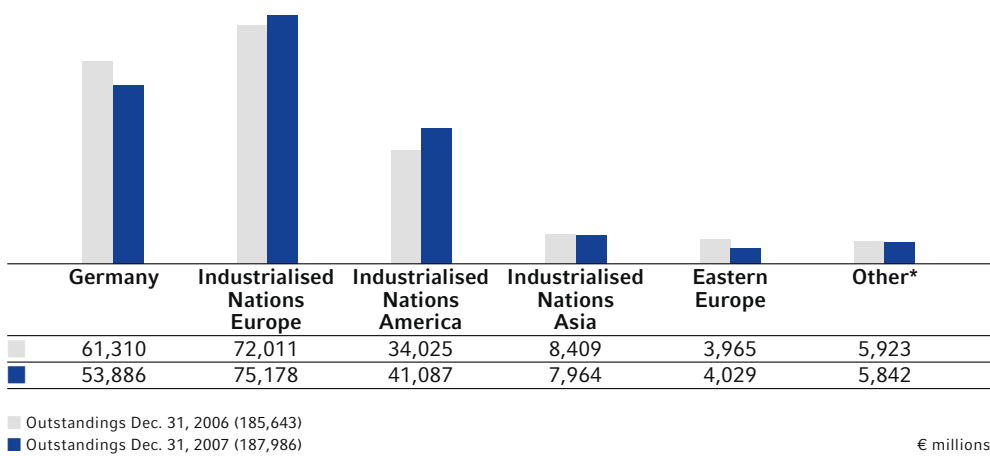


In terms of maturities, the major share of our commitments (41%) continues to lie in the short-term range "up to 1 year". Of the outstandings in this range, 77% are trading transactions while lending transactions predominate in the medium to long-term maturity ranges of "1 to 4 years" and "> 4 years".

We continued to expand our business in the medium-term ranges, with corporate client transactions accounting for the bulk of the growth.

Outstandings in the long-term ranges, by contrast, dropped overall, in large measure because of a decrease in business with central, regional and local authorities as well as governments and central banks. As before, 70% of the business of Westdeutsche ImmobilienBank AG (WIB) is long term.

#### Breakdown of Outstandings by Region (WestLB Group)



\* Middle East & Africa, emerging markets America, emerging markets Asia

The regional breakdown of the portfolio captures both foreign currency business, which is relevant for country risk (transfer risk), and local currency business.

Our lending activities focus on Germany and the other industrialised nations of Europe (69% of total outstandings).

Unchanged from the previous year, only 5% of outstandings were attributable to Eastern Europe and other regions as of December 31, 2007.

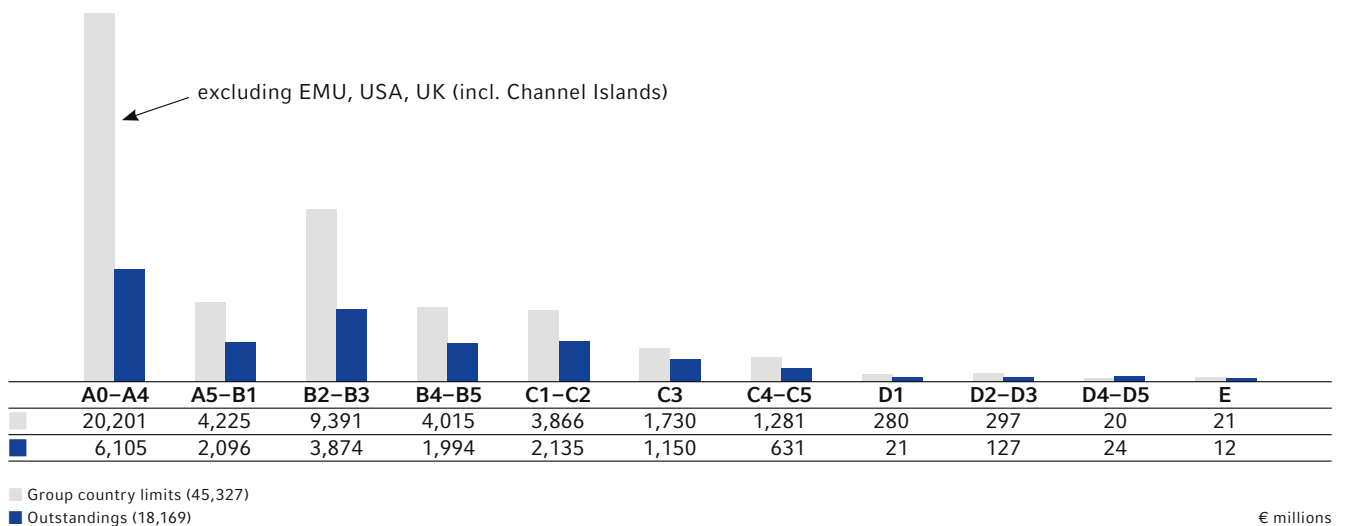
#### Country Risk

The Bank defines country risk as the risk that a borrower will not (or no longer) be able to service its foreign currency debt because of a government-issued order to stop transfers out of the borrower's home country or because of a worsening of the economy in the borrower's home country. Accordingly, any commitment which is not denominated in the borrower's home currency is subject to a potential country risk and has to be included in the country exposure list.

CRM gives each relevant country an internal rating. Country limits are determined on the basis of this country rating and on the Bank's risk-taking capacity. Country limits are divided into limits for short-term and long-term business, respectively, depending on the rating. The Credit Committee is in charge of centralised country limit management. It determines limit sizes as well as the methodologies and procedures used in country risk management. Individual limit utilisation is monitored on an ongoing basis with the help of the country risk recording system.

The regional client business units are responsible for managing the utilisation of the country limits and work with the individual product units from a risk-return point of view to determine how much of a country's overall limit they require and are permitted to use.

#### Use of Country Limits by Country Rating Category for All Countries Subject to Limits at December 31, 2007 (WestLB Group)



#### Counterparty Default and Country Risks in Trading Operations

The counterparty default risks in our trading business include pre-settlement risk from derivatives, issuer risk from securities positions, settlement risk from foreign currency transactions and credit risk from money market transactions.

Our internal regulations require that counterparty default risks be incorporated into our country risk calculations.

Our issuer risk calculations on securities positions are based on the mark-to-market approach. For determining the pre-settlement risk in our derivatives business, we use Monte Carlo-based portfolio simulation techniques.

Counterparty default risks from trading operations are charged daily to the appropriate credit lines. When credit line limits are exceeded, internal regulations stipulate that the responsible trading unit must document the incident with a corresponding explanation and forward the report to CRM.

The Bank has established internal standards for reducing the risks associated with the credit lines used in its trading activities, including rules on netting the exposures from buy and sell positions in its securities business and standards for close-out netting and margining in its OTC derivatives business, which is carried out using industry-standard master agreements. The responsibility for approving close-out netting and margining standards rests with the Netting Committee, a sub-committee of the Credit Committee.

Germany's new Solvency Regulation (SolvV) has introduced new, and changed some of the existing, requirements and possibilities for calculating risk in the trading business. In 2007, MRM commenced the process of implementing the requirements for using the internal model method for pre-settlement risks from the derivatives business.

#### Problem Loans and Risk Provisioning

The WestLB Global Watch List (WGW) is our central system for capturing problem cases. It is derived from a Group-wide database and serves, inter alia, as a tool for planning and monitoring the implementation of measures, for supporting the Group's risk reporting to the Managing Board and risk committee of the Supervisory Board and for determining allowance requirements for doubtful accounts.

Commitments with a sub-standard risk profile or increased risk and commitments which are or are likely to become non-performing are included in the WestLB Global Watch List (WGW) and undergo closer monitoring. The system captures various categories of problem cases.

Problem loans are transferred for closer scrutiny to a special centralised processing unit, where a team of experts works to maintain the value of the loans and limit the Bank's loss exposure by developing suitable restructuring strategies.

Any loan for which a specific risk provision is formed is considered a problem loan. A specific allowance for loan impairment is formed when information about possible problems of the individual borrower indicates that the borrower is unlikely to repay the loan as agreed.

The Managing Board and risk committee of the Supervisory Board are informed regularly with a report on the Bank's current risk allowance balance and recommendations concerning new allowances for specific credit risks. In addition to the recommendations for the fourth quarter, a summary of the recommendations made throughout the year is submitted at year-end. The Managing Board uses this report as a basis for determining allocations to the risk provisions.

#### Provisions for Credit Risks

The amounts reported as provisions for credit risks encompass the P&L effects on WestLB AG resulting from the evaluation of acute and latent counterparty default risks:

#### Result of Risk Provisions – Lending Business

	Allocations to Allowances € millions	Reversal of Allowances € millions	Net Allowances € millions	Other Risk Exp./Income € millions	Risk Result € millions
Acute counterparty default risk	- 589.0	207.8	- 381.2	0.6	- 380.6
Credit rating risk	- 540.5	90.1	- 450.4	4.1	- 446.3
Country risk	- 48.5	117.7	69.2	0.0	69.2
Other risk	0.0	0.0	0.0	- 3.5	- 3.5
Latent counterparty default risk	- 54.4	61.7	7.3	0.0	7.3
<b>Total</b>	<b>- 643.4</b>	<b>269.5</b>	<b>- 373.9</b>	<b>0.6</b>	<b>- 373.3</b>

#### Implementation of Basel II and the Minimum Requirements for Risk Management (MaRisk)

During the course of the last two years, following several years of preparation, WestLB applied for approval to use

- internal rating systems to determine counterparty default risk under the Advanced IRBA (Internal Rating Based Approaches),
- various IAAs (Internal Assessment Approaches) for counterparty default risks from the securitisation business and
- the AMA (Advanced Measurement Approach) for operational risk.

In several visits to various branches and subsidiaries over the past years, supervisors conducted in-depth audits of our methods and their implementation. BaFin notified us in December that WestLB had been approved to start using the methods on a provisional basis as of January 1, 2008. WestLB assumes that the final approval to use these methods will be issued in the first quarter of 2008.

WestLB will thus be one of the few German banks to begin full use of these methods at the earliest possible date.

WestLB is well prepared to meet MaRisk standards. Important process adjustments have already been made, and progress on those under implementation is reviewed regularly.

One of our main challenges in 2008 will be to make the necessary technical and procedural preparations for meeting the disclosure requirements under Basel II/Pillar 3.

### Participation Risks

Participation risk represents the risk of loss resulting from the provision of equity capital.

We manage our participation risks at Group level. The Corporate Finance unit is responsible for mezzanine solutions, and Investment Management is in charge of private equity investments. Group Development oversees the Bank's subsidiaries and Group companies. These business units monitor and steer the risks relating to these commitments, with particular attention paid to companies which are exposed to entrepreneurial risks.

Ongoing participations controlling enables us to analyse the current and future risks posed by holdings. The information collected serves as the basis for managing the participations from a shareholder perspective and within the parameters outlined by the equity investment strategy.

Group companies with their own bank status are fully incorporated into WestLB's risk and operational management, and certain of our investments are also followed by specialist units which monitor the risk situations. This approach allows for optimal support of companies whose business activities are closely linked with the activities of the respective product unit.

In accordance with MaRisk organisational and operational requirements, CRM assumes the back office function for all equity investments proposed by the Corporate Finance, Investment Management and Bank Holdings front office units and provides the independent second vote.

With respect to the requirements of Basel II, we use a PD/LGD-based model for calculating the economic capital required to back our participation risks. Structured around a new definition of default for participations, the model utilises the adapted risk parameters Probability of Default of Equity (PDE) and Loss Given Default of Equity (LGDE), which are now part of the Basel-II-compliant corporates risk-weighting formula used to determine our risk capital charges.

Given the divestment of additional non-strategic investments, the economic capital charges for our participation risks decreased further, down from € 600 million in 2006 to € 507 million in 2007.

### Liquidity Risks

Liquidity risk represents the risk that present or future payment obligations cannot be met in full or on time, or, in the case of a liquidity bottleneck, the risk that liabilities can be refinanced only at increased market rates (funding risk) or assets liquidated only at a discount to market rates (market liquidity risk). The liquidity risk strategy established in 2007 sets forth the responsibilities and requirements of our liquidity management.

In order to steer our liquidity, we determine, on a daily basis, the contractual maturity profile of all assets and liabilities having an impact on liquidity and compare it to the potential inflows and outflows from securities holdings, access to unsecured refinancing, time-bucketed deposits and contingent liabilities.

The Bank successfully steered its liquidity in 2007, especially during the financial market crisis. The infrastructure for liquidity management already put into place offered a systems platform which effectively supported our efforts to ensure that all liquidity risks remained transparent. An integrated treasury model also enabled us to manage our liquidity proactively.

### Diversification of Liabilities

By placing a greater focus on customer deposits, reducing our dependence on short-term capital market instruments and continuing our long-term issuance programme, we have made great strides in the past few years broadening and stabilising our refinancing base. This strategy proved extremely valuable in 2007.

### Short-Term Liquidity – Liquidity Reserve

Group Treasury, which serves as an integrated financial resources manager, provides the Bank with liquidity. It is the only business unit permitted to tap unsecured funding and the capital market. Group Treasury also functions as our central collateral manager, with permission to sell the Bank's unencumbered securities for cash or convert them into cash by entering into repurchase transactions with central banks or other parties on an as-needed basis. A central data pool which captures the securities supports these efforts.

Several securities, particularly those from securitisations, became increasingly illiquid as a result of the crisis in the financial markets. In addition, the Bank purchased commercial paper in an effort to support its sponsored securitisation vehicles. One of the main purposes of our liquidity management in the year under review was to make these securities and commercial paper useable as collateral for repurchase transactions.

The Bank continuously maintains a security portfolio of at least € 5 billion with the European Central Bank to function as a liquidity reserve and support its activities in the area of payment transactions. This portfolio gave us the flexibility to respond to changing market conditions.

#### Liquidity Contingency Planning, Stress Tests and Scenario Analysis

We have a global liquidity contingency plan in place which is supplemented by regional and local planning. The plan specifies the communication channels, responsibilities and procedures for addressing liquidity shocks. The contingency plan facilitates the introduction of countermeasures identified in liquidity stress tests and scenario analyses.

The Bank runs stress tests and scenario analyses to quantify the impact which unexpected events would have on its liquidity. The scenarios simulate external market events or WestLB-specific shocks, which also incorporate a rating downgrade, and help determine what values to assign in the stress tests to the parameters of asset liquidity, contingent liabilities and continued access to unsecured refinancing.

We increased the frequency of our liquidity stress tests in 2007. We made further improvements to the underlying scenarios and constantly verified our assumptions by comparing them to actual market developments.

A bank's liquidity is evaluated for regulatory purposes using the liquidity ratio determined pursuant to the German Liquidity Regulation (LiqV), which sets the cash available within a given month in relation to the payment obligations which may be called in during the same period. A bank's liquidity is considered sufficient if this ratio is at least 1.0. For WestLB AG, the ratio averaged 1.31 in the period from January to December 2007.

Sufficient liquidity was available to the Group at all times in 2007.

#### Operational Risks

Operational risks refer to the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risks, but excludes strategic and reputational risks.

## Organisation and Management

Operational Risk Management is a unit of the Risk Management division.

Operational Risk Management is in charge of defining the operational risk management framework as well as related instruments and guidelines, but the primary responsibility for implementing them and thus actually managing operational risks lies within the individual business units themselves. The business unit heads are supported in their efforts by decentralised Operational Risk Managers, who function as contact points for all of the respective units' employees on matters relating to the steering of operational risks. The decentralised Operational Risk Managers are in close contact with the central Operational Risk Management business unit.

Employee awareness of operational risks is raised through our Group-wide web-based learning programme as well as through frequent seminars on the subject. In addition, OpRisk Committees<sup>1</sup> in North, Central and South America (headquarters in New York), APAC (rotating headquarters), the United Kingdom (London) and Continental Europe (Düsseldorf) meet regularly to exchange information about current incidents involving WestLB and other banks in connection with operational risks. Furthermore, ORM regularly delivers reports at meetings of the Global Risk Committee.

The responsibility for identifying and steering legal risks in the WestLB Group is chiefly shouldered by the Legal business unit, which relies on a close working relationship and constant communication with all other units in the Group. In addition, each unit is responsible for recognising any existing or imminent legal risks in its own operations and for taking the required steps to reduce or prevent such risks to the greatest extent possible. In this way, notice is taken of occurrences which could harm the Group for legal reasons and suitable, preventive countermeasures are introduced.

The Operational Risk Management unit cooperates closely with central units of the Bank (e.g. Contingency Planning, Internal Auditing, Insurance, IT and Non-IT Security) at regular workshops and committee meetings.

## Instruments for Measuring Operational Risk

Our operational risk is steered on the basis of a framework which is consistent throughout the Group. The instruments we use include:

- Internal/external data pooling: WestLB began collecting data on internal risk events involving sums of € 2,000 and higher in January 2004. The introduction of a self-insurance concept has created an incentive to support the internal reporting process. To exchange data on an external basis, WestLB joined the ORX data consortium in 2004.

<sup>1</sup> OpRisk telephone conferences for APAC and Continental Europe

- Risk self assessment: Experts from the individual business units regularly examine the most important banking applications and processes for sources of operational risks and use their findings to develop measures and make risk decisions.
- Risk indicators: Objective information captured at regular intervals, risk indicators are part of our early warning system for operational risk. They show changes in WestLB's risk profile over time.
- Scenario analysis: Experts from the individual business units regularly analyse extreme situations which could affect WestLB in order to assess their likelihood and quantify the potential losses.
- Tracking: OPM has a system in place for regularly monitoring the measures identified by the individual operational risk management instruments discussed above. In 2007 this tracking system was integrated into the existing IT architecture.
- Incentive systems:
  - Scorecards: We assess and compare the quality of our decentralised operational risk management in various categories and against various criteria and then adjust the (regulatory and economic) capital charges generated by our internal model in line with the results.
  - Self-insurance model: As part of the budget process, the business units set aside a certain amount of money, much like an insurance premium, to guard against operational risks. In return, they receive a reimbursement of their expenses for reported events (less a deductible).

#### AMA (Advanced Measurement Approach) Model

WestLB's internal steering of operational risks has relied on the use of the Bank's own proprietary model for determining the relevant economic capital charges since 2006. The model's features include:

- Use of a loss distribution approach. Estimates for the distribution parameters are calculated using internal loss data, data from the ORX consortium and data from scenario analysis.
- The VaR is calculated for a 14-cell operational risk matrix broken down by business line and event type with data compression for:
  - the "Commercial Banking", "Corporate Finance" and "Trading & Sales" business lines,
  - the "Internal Fraud" and "External Fraud" event types,
  - the "Business Disruption and System Failure" and "Execution, Delivery and Process Management" event types.
- Correlations in the number of observed losses (across event types within a business line) and insurance payments are taken into account.
- The BU scorecard and risk indicators are used to adjust the capital requirements.
- The capital charges are then allocated among the business units and legal entities.

WestLB AG filed an application with the supervisory authorities in October 2006 for approval to use the Advanced Measurement Approach (AMA) to measure the WestLB Group's operational risks. The corresponding audits were conducted in late 2006 and August 2007. BaFin notified WestLB in December that the Bank had been approved to start using the methods on a provisional basis as of January 1, 2008. WestLB assumes that the final approval to use these methods will be issued in the first quarter of 2008.

### Reputational Risks

Reputational risk is defined as the risk that WestLB's stakeholders will develop a negative perception of its performance, competence, integrity or trustworthiness.

WestLB believes that reputational risk should be taken seriously across all business lines and related products making up its core operations. In particular, we believe that our reputation factors heavily into our sustainability and can affect our enterprise value both positively and negatively. Thus, developing a systematic approach for handling this type of risk is becoming increasingly important.

The responsibility for coordinating the efforts to steer WestLB's reputational risks rests with Operational Risk Management, which works closely with External Communications, Group Compliance (incl. Anti-Money Laundering) and Sustainability Management.

The due diligence we conduct before starting any new lines of business, or working with new customer and/or product groups, includes an analysis of potential reputational risks. We examine the reputational risks at the individual transaction level using a checklist.

An internal directive has been published on the topic of reputational risks.

### Tax Risk

The Bank structures and completes transactions for customers and for own account which are designed to maximise tax benefits, optimise the balance sheet and make best use of equity capital. Aspects of UK and Luxembourg tax law, in particular, are used within the framework of structured tax transactions. In the reporting year, the existing risk strategy for structured products was subject to an annual review on the basis of MaRisk requirements and approved by the Managing Board, Risk Committee and Supervisory Board. This risk strategy includes specific limits for the overall tax liability, the tax liability related to individual transactions and for certain transaction models. It also provides for monitoring of the related risks and limits by the Group Finance/Tax and Credit Risk Management business units. Opinions from outside experts are sought to evaluate the tax risks of a transaction, and Group Finance/Tax is given an independent vote on transaction approval.

In the year under review, our portfolio-based reporting on structured tax transactions was incorporated into the Group-wide risk report which is submitted to the Managing Board on a monthly basis and the Risk Committee of the Supervisory Board on a quarterly basis. The reporting also specifies the economic capital charges for the transactions, which are calculated using a method adopted by the Economic Capital Committee (ECC). The technique is based on a Monte Carlo simulation which takes into account that the transactions themselves are structured according to particular models. As of the reporting date, the economic capital charges for these transactions totalled € 122 million, which, at less than 3% of our consolidated economic capital charges, is of minor significance for the Group as a whole.

### Other Risks

The concept of longevity risk was added to our risk management in the reporting year. Longevity risk is the risk of losses on financial instruments stemming from uncertainty about the life expectancy of individuals or groups of individuals. Certain kinds of life insurance policies are particularly vulnerable to this type of risk. The Bank has no intention of assuming longevity risks on any significant scale. Its chief interest is participating in the trend to develop a liquid longevity market.

The Managing Board and Risk Committee of the Supervisory Board adopted the Structured Investment Products, Life Insurance Solutions risk strategy for these types of products in the year under review. This strategy governs WestLB's lending operations in the secondary market for life insurance policies and insurance-related structured products. The Bank's role in this line of business is both as investor and as lender. For one thing, it buys existing life insurance policies at a price which is below their "intrinsic value" but usually above the cash value, holds them for a certain period of time in special purpose vehicles (short-term warehousing financing facilities) and then either sells them to fund companies or other investors or securitises them. WestLB then frequently offers long-term financing to the final buyers.

### Risk Report Outlook

In light of the challenging situation in the capital markets in 2007 and the impact on our positioning, we will actively work towards reducing our concentration risks further in 2008. As part of the ongoing improvement of our risk management system, we intend to use our experiences from the financial market crisis to develop procedures which will provide us with a more integrated view of our market, credit and liquidity risks as well as their effects on our capital and results. Thus, one additional focus of our work in 2008 will be on Bank-wide, integrated stress testing which encompasses all risk types.

Moreover, we will reach a significant milestone in 2008 with our first-time regulatory reporting using the internal ratings-based, internal assessment and advanced measurement approaches (IRBA, IAA and AMA) we have implemented. We will also continue our implementation of the requirements under Basel II/Pillar 2 (ICAAP = Internal Capital Adequacy Assessment Process) and actively prepare for the disclosure requirements pursuant to Basel II/Pillar 3.

## Events Occurring After the Close of the Fiscal Year

The valuation parameters deteriorated further at the beginning of 2008 in the course of the financial market crisis. WestLB adjusted its earnings forecasts accordingly in January 2008 and published an ad hoc news release to this effect on January 21, 2008. Standard & Poor's responded by placing the Bank's long-term rating on Credit Watch negative.

Due to the negative impact which the financial market crisis had on the results reported in our 2007 annual financial statements, the resulting threat of further rating downgrades and the ongoing volatility in the valuation of structured securities in the current fiscal year, WestLB's owners reached an agreement on February 8, 2008 to strengthen the Bank's capital base and introduce a comprehensive risk shield. Under the agreement, WestLB will transfer securities with a nominal value of approximately € 23 billion from the Bank's structured portfolios to an independent special purpose vehicle, with the owners pledging to cover the first losses resulting from any payment defaults on the securities. Our owners will provide up to € 5 billion under this first-loss guarantee, € 2 billion of which will be used to cover losses in line with their respective shareholdings in WestLB AG. Any further losses up to € 3 billion will be borne by the State of North Rhine-Westphalia (disproportionate share in the risk shield).

If and to the extent that claims arising from the disproportionate risk shield are asserted against the State of North Rhine-Westphalia, the federal state is entitled to demand that a corresponding number of WestLB shares currently held by the savings banks associations (RSGV and WLSGV) and the regional associations of the Rhineland and Westphalia-Lippe shall be transferred to the federal state against payment of the book value of the shares held by the above shareholders. Instead of a transfer of the shares, the parties involved may also agree on a cash payment.

At the Supervisory Board meeting held on February 7, 2008, the Managing Board submitted a framework plan for restructuring WestLB and strengthening the business model by the year 2010. By increasing efficiency and consolidating operations, the restructuring and strategic realignment will generate annual cost savings of € 300 million at Group level by 2010. The planned measures also involve reducing headcount by between 1,300 and 1,500 employees during this period. The savings banks and mid-cap initiative alone will increase income from our customer business by approximately € 100 million per year.

The chief purpose in adjusting the business model is to increase our business with medium-sized companies and further expand our business with the savings banks. The four pillars of the business model are Sparkassen & Private Clients, Corporate Clients, Real Estate Clients and Investment Banking.

Standard & Poor's responded to this package of measures by revoking its Credit Watch negative on February 11, 2008.

## Outlook

By most indications Germany's economic environment will become considerably more challenging in 2008. Global growth is likely to slow, not least because of the real estate crisis in the U.S., and the euro's surge is poised to last for a while. No appreciable, sustainable decrease in the price of oil and other raw materials is in sight. We believe that unit labour costs will not drop any further, unlike in the previous years. In response to the capital market crisis, banks are expected to make their lending policies even more restrictive. All in all, we project that exports and capital spending will lose momentum. However, assuming our forecast for recovery in private consumption bears out, the economy will not experience any major slowdown. Rising employment and more robust wage growth could ultimately hasten an increase in disposable incomes. Even if the higher rate of inflation erodes some of the gains, they should in the end prove sufficient to boost consumer spending noticeably. Overall, we expect growth to weaken to around 1.8% in the coming year.

Internationally, the defaults in the U.S. mortgage market will remain an issue for the banking sector. Whereas the focus in 2007 was on measuring future default risks as a result of the mortgage crisis in the U.S., the spotlight now will shift to the actual cases of default brought on by interest rate adjustments. What is more, with the share of subprime mortgages in total mortgages reaching as high as 40% in some areas of the country, regional risk concentrations will play a key role. Thus, economic developments in the U.S., particularly at the local level, will have far-reaching implications.

Investment banking was hard hit by the substantial value losses triggered by the capital market crisis. We expect market conditions to remain difficult for those segments of investment banking directly affected by the situation.

German banks are still waging battle on two fronts: One important task internally is to draw level with the international peer group in terms of profitability. Externally, they are struggling to stake their claim in a climate characterised by stagnating business volumes, growing competition and the resulting likelihood that margins in their retail business will face further squeezing. Improvements should prove feasible in business with public-sector and corporate clients, because the risk premiums in these operations are returning to normal levels. Because of its size, Germany remains an attractive market for foreign financial institutions, particularly in the area of retail banking, which is why competition is expected to intensify further.

WestLB did not escape the turmoil in the capital markets. However, due to the risk shield of up to € 5 billion guaranteed by the owners, the Bank is protected from further losses arising from its structured securities portfolios with a nominal volume of approximately € 23 billion. The risk shield has created the necessary room to strengthen WestLB and guarantee its future viability. At the same time it is a condition for enabling WestLB to make an active contribution towards the process of consolidation in the Landesbank sector.

At the Supervisory Board meeting held on February 7, 2008, the Managing Board submitted a framework plan for restructuring WestLB and strengthening its business model by the year 2010. The key points of the plan are:

- To generate cost savings of approximately € 300 million per year up to 2010 by increasing efficiency and adjusting our business activities.
- To reduce headcount in the Group by between 1,300 and 1,500 employees during this period.
- To generate additional income of € 100 million per year in our customer business through the savings banks and mid-cap initiative.

One of the main reasons for adjusting the business model is to strengthen our business with medium-sized companies and further expand our business with the savings banks. The four main pillars of the business model are Savings Banks & Private Clients, Corporate Clients, Real Estate Clients and Investment Banking.

The strategy for strengthening the joint business with the savings banks involves broadening the range of products, inter alia for the retail business of the savings banks. We also intend to raise the cooperation quotient further by working closely with the savings banks in our capacity as the central bank of the savings banks in the "S-Finanzverbund Nordrhein-Westfalen" to tap the region's market potential. Creating firm, long-term contractual arrangements and articles of cooperation are one part of this process. Another is that the State of North Rhine-Westphalia plans to re-establish a statutory basis for the function of central institution of the savings banks. The aim of these measures is to secure a joint rating for the "S-Finanzverbund".

We intend to expand our business with medium-sized companies substantially by exploiting the potential available. The decision reached by the owners to target firms in the home market of North Rhine-Westphalia with annual sales starting at € 50 million is expected to generate a substantial increase in business. The aim is to boost our activities as a provider of innovative financial solutions which are tailored to small and medium-sized enterprises in NRW and beyond, particularly in the area of corporate finance products. Last year alone we succeeded in acquiring over 300 new clients. We plan to further optimise our business with large corporates in Germany by launching segment and industry-specific initiatives designed to win new clients with product offerings adapted to their needs. With respect to real estate clients, we will increasingly focus on the value-creating aspects of real estate financing by expanding our real estate investment banking activities.

We will focus our investment banking activities and expand the customer business in the process. In addition, we will concentrate on our core product expertise. Both measures will help to reduce our earnings volatility and improve the risk profile.

Implementation of the planned measures is scheduled to start immediately, and we therefore expect to see significant cost savings already in 2008. Moreover, the risk shield agreed by our owners, the comprehensive restructuring and the strengthening of our business model will help reduce our risks and improve the quality of our earnings on a sustainable basis.

Looking ahead to 2008, the Bank will be far less vulnerable than it was in 2007 to the turmoil in the capital markets as a result of the risk shield provided by the owners.

WestLB will embark on the necessary process of restructuring in what remains a challenging market environment. In the context of the restructuring, the unavoidable reductions in headcount will again have an adverse impact on our results in 2008. The uncertainties in the capital market continue, and the margin and competitive pressure is undiminished. Consequently, the situation which unfolded in the capital markets and the strengthening of our business model made it necessary to adjust our previous planning for 2008. Nevertheless, we are convinced that in 2008 we can repeat the operating successes which we achieved in our customer business in the reporting year and post a positive operating result after adjustment for restructuring expenses. With the measures introduced, our aim is to increase the return on equity before taxes to a double-digit figure by 2010.

Düsseldorf/Münster, February 19, 2008

The Managing Board

WestLB AG

Alexander Stuhlmann  
Werner Taiber

Dr. Norbert Emmerich  
Dr. Wolfgang Nickels

Dr. Hans-Jürgen Niehaus



{Balance Sheet}

Liabilities

	<i>see Notes No.</i>	€	€	31. 12. 2007 €	31. 12. 2006 € thousands
<b>1. Liabilities to banks</b>	<i>15, 18, 23, 32</i>				
a) payable on demand			13,209,089,398.42		(16,628,358)
b) with agreed maturity or period of notice			97,890,330,490.87		(90,711,295)
				111,099,419,889.29	107,339,653
<b>2. Liabilities to customers</b>	<i>15, 19, 23</i>				
a) deposits					
aa) with agreed period of notice of three months		186,233.16			(189)
ab) with agreed period of notice of more than three months		0.00			(0)
			186,233.16		189
b) other liabilities					
ba) payable on demand		9,477,951,402.22			(8,703,946)
bb) with agreed maturity or period of notice		40,583,539,318.84			(47,806,959)
			50,061,490,721.06		(56,510,905)
				50,061,676,954.22	56,511,094
<b>3. Certificated liabilities</b>	<i>15, 20, 23, 33</i>				
a) bonds and notes issued by the Bank			22,665,645,513.55		(16,585,498)
b) other certificated liabilities			24,919,356,148.13		(30,329,757)
including: money market instruments € 2,738,593,082.77 (2006: € 6,666,788,000)				47,585,001,661.68	46,915,255
<b>4. Trust liabilities</b>	<i>21</i>			359,420,113.94	394,398
including: trust loans € 19,844,113.94 (2006: € 19,421,000)					
<b>5. Other liabilities</b>	<i>3, 22</i>			9,625,437,897.83	11,011,266
<b>6. Deferred items</b>	<i>3, 23</i>			621,026,200.73	730,523
<b>7. Provisions</b>	<i>24, 37</i>				
a) for pensions and similar obligations			569,779,361.89		(566,831)
b) tax reserve			425,199,463.78		(355,389)
c) other			1,039,315,635.33		(1,378,581)
				2,034,294,461.00	2,300,801
<b>8. Subordinated liabilities</b>	<i>25</i>			3,568,076,231.45	3,703,453
<b>9. Profit participation capital</b>	<i>22, 26</i>			1,608,048,820.63	2,103,491
including: due in less than two years € 847,205,940.68 (2006: € 721,094,000)					
<b>10. Fund for general bank risks</b>	<i>27</i>			0.00	300,000
			To be carried forward:	226,562,402,230.77	231,309,934

## WestLB AG Balance Sheet as at December 31, 2007

### Assets

	<i>see Notes No.</i>	€	€	31. 12. 2007 €	31. 12. 2006 € thousands
			Carried forward:	209,340,898,393.55	214,818,679
<b>6. Shares and other</b>					
non-interest-bearing securities	<i>8, 13, 16, 32, 39</i>			4,540,646,133.90	6,409,729
<b>7. Equity investments in</b>					
non-affiliated companies	<i>9, 13, 39</i>			793,888,325.53	887,170
including:					
banks					
€ 34,047,819.20 (2006: € 113,576,000)					
financial services institutions					
€ 376,521.96 (2006: € 426,000)					
<b>8. Equity investments in</b>					
affiliated companies	<i>10, 13, 39</i>			4,256,343,601.47	3,636,883
including:					
banks					
€ 2,359,691,946.66 (2006: € 2,182,493,000)					
financial services institutions					
€ 54,047,595.87 (2006: € 60,634,000)					
<b>9. Trust assets</b>	<i>11</i>			359,420,113.94	394,398
including:					
trust loans					
€ 19,844,113.94 (2006: € 19,421,000)					
<b>10. Intangible assets</b>	<i>13</i>			45,394,018.40	42,234
<b>11. Fixed assets</b>	<i>13, 37</i>			107,738,910.13	138,352
<b>12. Other assets</b>	<i>3, 12</i>			11,178,003,505.34	10,012,596
<b>13. Deferred items</b>	<i>3, 15</i>			710,803,574.25	922,549
<b>Total assets</b>	<i>30</i>			<b>231,333,136,576.51</b>	<b>237,262,590</b>



# WestLB AG Statement of Income

for the Period January 1 – December 31, 2007

	<i>see Notes</i>		€	€	1. 1. – 31. 12. 2007	1. 1. – 31. 12. 2006
	<i>No.</i>				€	€ thousands
<b>1. Interest from</b>						
a) lending and money market transactions		7,327,015,547.45				(6,051,890)
b) interest-bearing securities and book-entry securities		1,860,526,737.81				(1,711,937)
	34		9,187,542,285.26			(7,763,828)
<b>2. Interest paid</b>	22, 25, 42		8,489,404,462.04		698,137,823.22	(7,212,631)
						551,197
<b>3. Current income from</b>						
a) shares and other non-interest-bearing securities			65,792,678.65			(116,991)
b) equity investments in non-affiliated companies			54,352,584.31			(37,516)
c) equity investments in affiliated companies			200,172,049.93			(151,579)
	34				320,317,312.89	306,085
<b>4. Income from profit pooling, profit transfer and partial profit transfer agreements</b>	34				283,467,830.22	586,246
<b>5. Commission income</b>	34		496,197,412.74			(482,911)
<b>6. Commission paid</b>			153,009,789.57		343,187,623.17	(161,029)
						321,882
<b>7. Net result from trading operations</b>	34				- 1,477,468,978.60	436,746
<b>8. Income from leasing business</b>	34, 36				5,125,773.46	18,821
<b>9. Expenses from leasing business</b>	13, 36				4,077,762.71	15,298
<b>10. Other operating income</b>	34, 37				131,179,899.73	152,544
<b>11. General administrative expenses</b>						
a) personnel expenses						
aa) wages and salaries	47	561,967,146.79				(920,852)
ab) compulsory social security contributions and expenses for pensions and other employee benefits	24, 47	178,134,470.42				(156,267)
including: for pensions			740,101,617.21			(1,077,120)
€ 128,850,223.71 (2006: € 92,886,000)						
b) other administrative expenses	38		571,476,516.81		1,311,578,134.02	(631,719)
						1,708,839
<b>12. Depreciation and value adjustments on tangible and intangible assets</b>	13				35,562,382.85	44,784
<b>13. Other operating expenses</b>	24, 37, 47				93,911,670.63	143,672
					To be carried forward: - 1,141,182,666.12	460,928

{Statement of Income}

for the Period January 1 – December 31, 2007

	<i>see Notes</i> <i>No.</i>	€	€	1. 1. – 31. 12. 2007 €	1. 1. – 31. 12. 2006 € thousands
			Carried forward:	– 1,141,182,666.12	460,928
14. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions	24, 39			92,615,654.19	0
15. Income from revaluation of loans and certain securities as well as from the reversal of loan loss provisions	24, 39			0.00	336,889
16. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets	13, 39			108,990,921.28	51,467
17. Allocation to the fund for general bank risks	27			0.00	218,000
18. Withdrawal from the fund for general bank risks	27			300,000,000.00	0
19. Expenses from the assumption of losses	39			11,098,098.81	20,663
20. Profit or loss on ordinary activities				– 1,053,887,340.40	507,687
21. Taxes on income and revenues	41	115,493,542.25			(137,814)
22. Other taxes not shown under other operating expenses			– 5,780,882.65	109,712,659.60	(6,162) (143,976)
23. Profit transferred under profit pooling, a profit transfer agreement or a partial profit transfer agreement	42			0.00	59,137
24. Net profit/loss for the year				– 1,163,600,000.00	304,574
25. Withdrawal from capital reserves	28			960,370,356.82	0
26. Allocation to reserves from retained earnings	28			0.00	150,000
27. Withdrawal from reserves from retained earnings	28			150,000,000.00	0
28. Reinstatement of the silent contributions to capital	28			0.00	136,251
29. Withdrawal from the silent contributions to capital	28			53,229,643.18	0
30. Profit	28			0.00	18,323

# WestLB AG Notes to the Annual Financial Statements at December 31, 2007

## Preparation of Annual Financial Statements (1)

The single-entity annual financial statements of WestLB AG (hereinafter “the Bank” or “WestLB”) are prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV), the relevant provisions of the German Stock Corporation Act (AktG) and the Pfandbrief Act (PfandBG). Information which may appear either on the balance sheet or in the Notes has been included in the Notes.

We prepare consolidated annual financial statements in addition to the single-entity annual financial statements in accordance with § 315 a of the German Commercial Code (HGB) and Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 (IAS Regulation). The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In accordance with § 325 and § 328 of the German Commercial Code (HGB), the single-entity and consolidated annual financial statements are submitted to the operator of the electronic Bundesanzeiger (Federal Gazette), which is available at [www.ebundesanzeiger.de](http://www.ebundesanzeiger.de).

## Accounting and Valuation Principles (2)

Assets, liabilities and pending transactions are valued in accordance with §§ 252 et seq. and §§ 340 et seq. of the German Commercial Code (HGB).

Claims are reported at their outstanding principal balances less any unamortised discounts. Liabilities are carried at their repayment amounts, with any related discounts reported as assets under deferred items. Premiums on claims and liabilities are reported under deferred items as an asset or liability, respectively. The accrued interest on a claim or liability at year-end is included with the claim or liability to which it applies, except in the case of subordinated liabilities. Deferred items relating to premiums and discounts from the underwriting and lending businesses are valued according to the effective interest method. Bills of exchange, as well as treasury bills and non-interest-bearing treasury bonds, are discounted and shown with the effective discount rate. Non-interest-bearing loans to employees are reported at their outstanding principal balance in accordance with tax regulations. Zero-coupon bonds issued are carried as liabilities at their issue price plus share in the difference between the issue price and redemption value as of the balance sheet date assuming a constant effective interest rate.

Discernible risks in the lending business are adequately covered by individual value adjustments and provisions. Global value adjustments are used in accordance with tax valuation methods for latent risks from claims and contingent liabilities. In the case of loans to borrowers in countries with acute transfer risk, we establish country-related globalised value adjustments. We base our write-down rates on the difference between the yields on the relevant country’s top-rated government bonds and market returns for its government securities over the maturity profile of the respective exposure. When market prices for a country’s government bonds are not available, we rely on the allowance ratios which are regularly updated by external rating agencies.

A country is identified as posing an increased risk on the basis of WestLB's internal rating for it. This rating is a function of current and anticipated economic data as well as the overall political situation in the country and is regularly adjusted to reflect changes in these factors.

Securities held in the liquidity reserve are valued according to the strict lower of cost or market principle.

Securities treated as fixed assets (long-term investments) are valued at cost. Any difference between the cost and the redemption amount is recognised on a pro rata basis in income. Where a loss of value is expected to be permanent, the securities are written down to the lower fair value. Any amounts by which the carrying value of such securities exceeds their current market value because of application of the modified lower of cost or market principle are shown separately in the Notes. This information is subject to change over time because of portfolio changes, as well as movements in interest rates and/or market value.

The market value as of the balance sheet date of shares, bonds, derivatives and other trading instruments held by WestLB for proprietary trading purposes is initially determined independent of the trading units on a per-asset basis. They are carried either at market value or their fair value as at December 28, 2007 (last trading day for liquid markets); pro-rata interest, non-recurring payments, and option premiums are taken into account. If market values are not available or cannot be reliably determined, particularly in the case of derivative financial instruments, the fair value is determined on the basis of standard pricing models or discounted cash flows. We marked down the values calculated for some assets using a valuation model if the models did not take into account all factors which market participants consider. The markdowns are predominantly for credit rating, model and liquidity risks.

With the risk-adjusted mark-to-market method, we then combine the trading book positions and contracts marked to market into portfolios according to the risk steering in the respective business units. In keeping with the principle of prudence stipulated in the German Commercial Code (HGB), the aggregate valuation results of each portfolio are subsequently reduced by the potential loss (value at risk) calculated using a mathematical formula. Based on the calculation methods employed by the Bank's risk management, the VaR discounts are measured such that any maximum loss anticipated from open trading positions, assuming a holding period of ten days and probability of 99%, can be offset.

Trading in structured securities largely came to a standstill in the course of the financial market crisis. Consequently, in the absence of market prices for many of the trading positions, we applied reasonable valuation methods. When applying these methods, we used the prices quoted for comparable products or measured the instruments using models based on market price indices, credit spreads and other observable market parameters. In cases where some of the reference data were not available in the market, we applied realistic assumptions and estimates based on market conditions, paying particular attention to market-based econometric models. Additional information is available in the Risk Report section of our Statement of Financial Condition.

With respect to such structured securities held in the banking book, we tested for permanent impairment on a case-by-case basis. The holdings were analysed using a variety of methods (top down analyses, cash flow analyses, fair value estimates assuming a forced sale). The results provided the range of values at which the assets could be measured in the current market environment and were used as a basis for determining the amount of any anticipated permanent impairment.

Valuations such as those described above in connection with illiquid portfolios of structured securities require management to make assumptions and estimates which are based on subjective assessments and inevitably entail forecasting uncertainties. Even when our estimates are based on available information, past experience and other criteria, actual, future events may still vary, which can have a not insignificant impact on our cash flows, financial condition and results of operations. We believe the employed parameters are appropriate and justifiable.

Current income from securities and money market holdings (interest and dividend income), as well as refinancing costs, are reported as part of the interest result on the statement of income. To the extent they result from trading transactions, price gains and losses, as well as payments obtained and received under forward contracts, options and other derivative instruments, are included in the net income from trading operations. The same applies to trading product valuation results which affect income. The dividend income from some equity trading portfolios is also included in the net income from trading operations since the positions are held for trading purposes.

Equity investments in affiliated and non-affiliated companies are carried at cost. Where a loss of value is expected to be permanent, they are written down to the lower fair value.

Tangible assets with a limited useful life and intangible assets acquired against payment with a limited useful life are depreciated or amortised in accordance with the applicable tax regulations; we write off low-value assets in full in their year of purchase.

Adequate provisions have been made for contingent liabilities and anticipated losses from pending transactions. Provisions for pensions are established on the basis of actuarial principles in accordance with § 6 a of the German Income Tax Act (EStG).

A fund for general bank risks formed pursuant to § 340 g of the German Commercial Code (HGB) is reported separately on the balance sheet, and there are reserves formed pursuant to § 340 f of the German Commercial Code (HGB).

Foreign currency amounts have been translated in accordance with § 340 h of the German Commercial Code (HGB) and statement BFA 3/95. Assets and liabilities denominated in foreign currencies, as well as unsettled spot deals, were translated using the ECB reference rates effective on December 31, 2007. Unsettled forward contracts (currency forwards and currency options) have been carried at the mean forward rate or option premium effective on that date. Income and expenses for which a particular exchange rate has been agreed are translated at the respective hedge rate. Swap premiums on balance sheet items hedged for foreign exchange risk are deferred and amortised over time. The amortisation amounts are included in the interest result.

Each of the items on the balance sheet, as well as each pending transaction, which is denominated in a foreign currency is classified and valued as specifically hedged by an item which is also denominated in that currency within the meaning of § 340 h (2) Sentence 2 of the German Commercial Code (HGB). Therefore, in accordance with § 340 h (2) Sentences 1 and 2 of the German Commercial Code (HGB), all expenses and income generated from the translation of foreign currency are captured in the statement of income. There was no income which had to be reported separately since the currency positions open as of the balance sheet date were short-term. The positive result from the individual valuation of pending currency transactions is reported under other assets as a net amount.

### Forward Transactions/Derivatives (3)

As part of its business operations, the Bank enters into the following types of forward transactions and derivative instruments:

#### ■ Products based on interest rates

Interest rate swaps, interest rate futures, forward rate agreements (FRAs), interest rate options, issued interest rate warrants, interest rate caps, interest rate floors, interest rate collars and swaptions.

#### ■ Products based on exchange rates

Currency forwards, currency options, issued currency warrants, interest rate/currency swaps, forward interest rate/currency swaps.

#### ■ Products based on share prices and other prices

Stock forwards, stock options, index forwards, index options, issued stock warrants and issued index warrants, precious metal/commodity forwards and options.

#### ■ Credit derivatives

Credit default swaps, total return swaps and credit linked notes.

In fiscal 2007, the average annual value, in nominal terms, of the derivatives and forward transactions was € 2,699.9 billion (2006: € 2,951.9 billion).

## Derivatives – Average Volumes

Jan. 1 – Dec. 31	Nominal Values		Positive Market Values		Negative Market Values	
	2007	2006	2007	2006	2007	2006
€ millions						
<b>Products based on interest rates</b>	<b>2,203,210</b>	<b>2,507,344</b>	<b>22,316</b>	<b>26,736</b>	<b>21,676</b>	<b>26,285</b>
Products traded OTC	2,040,860	2,254,722	22,311	26,711	21,662	26,268
Products traded on the stock exchange	162,350	252,622	5	25	14	17
<b>Products based on exchange rates</b>	<b>277,941</b>	<b>300,894</b>	<b>7,193</b>	<b>4,930</b>	<b>6,929</b>	<b>4,539</b>
Products traded OTC	277,770	300,889	7,193	4,930	6,929	4,539
Products traded on the stock exchange	171	5	0	0	0	0
<b>Products based on share prices and other prices</b>	<b>88,789</b>	<b>52,302</b>	<b>4,250</b>	<b>2,471</b>	<b>4,715</b>	<b>2,163</b>
Products traded OTC	29,939	24,841	1,907	1,517	2,057	1,266
Products traded on the stock exchange	58,850	27,461	2,343	954	2,658	897
<b>Credit derivatives</b>	<b>129,981</b>	<b>91,347</b>	<b>1,215</b>	<b>646</b>	<b>1,129</b>	<b>651</b>
Products traded OTC	129,981	91,347	1,215	646	1,129	651
<b>Total derivatives</b>	<b>2,699,921</b>	<b>2,951,887</b>	<b>34,974</b>	<b>34,783</b>	<b>34,449</b>	<b>33,638</b>
Products traded OTC	2,478,550	2,671,799	32,626	33,804	31,777	32,724
Products traded on the stock exchange	221,371	280,088	2,348	979	2,672	914

As of the balance sheet date, the total volume in nominal terms of forward transactions/derivatives was € 2,572.0 billion (2006: € 2,750.3 billion). The emphasis continues to be on interest rate products, whose share of the total volume dropped to 79.5% (2006: 83.0%).

In addition to the credit derivatives in the trading book, which are shown in the table, we also use credit derivatives in the banking book. Of those in the banking book, the Bank was the guarantee for (had bought) € 2,742.6 million (2006: € 3,811.4 million) and was guarantor for (had sold) a volume of € 620.2 million (2006: € 556.3 million) at December 31, 2007.

We capture book values which are only relevant with respect to option premiums paid or received and interest payment components as “other assets” and assets under “deferred items” as well as “other liabilities” and liabilities under “deferred items”.

## Derivatives – Volumes at the Reporting Date

€ millions	Nominal Values		Positive Market Values		Negative Market Values	
	2007	2006	2007	2006	2007	2006
<b>Products based on interest rates</b>	<b>2,045,357</b>	<b>2,282,392</b>	<b>21,858</b>	<b>24,445</b>	<b>20,745</b>	<b>24,124</b>
Products traded OTC	1,922,058	2,101,757	21,855	24,429	20,745	24,116
Products traded on the stock exchange	123,299	180,635	3	16	0	8
<b>Products based on exchange rates</b>	<b>286,207</b>	<b>293,938</b>	<b>9,544</b>	<b>6,391</b>	<b>8,811</b>	<b>5,252</b>
Products traded OTC	286,207	293,938	9,544	6,391	8,811	5,252
Products traded on the stock exchange	0	0	0	0	0	0
<b>Products based on share prices and other prices</b>	<b>89,749</b>	<b>69,085</b>	<b>4,221</b>	<b>3,301</b>	<b>4,809</b>	<b>2,851</b>
Products traded OTC	28,351	25,813	1,865	1,492	1,991	1,190
Products traded on the stock exchange	61,398	43,272	2,356	1,809	2,818	1,661
<b>Credit derivatives</b>	<b>150,685</b>	<b>104,855</b>	<b>1,813</b>	<b>780</b>	<b>1,625</b>	<b>782</b>
Products traded OTC	150,685	104,855	1,813	780	1,625	782
<b>Total derivatives</b>	<b>2,571,998</b>	<b>2,750,270</b>	<b>37,436</b>	<b>34,917</b>	<b>35,990</b>	<b>33,009</b>
Products traded OTC	2,387,301	2,526,363	35,077	33,092	33,172	31,340
Products traded on the stock exchange	184,697	223,907	2,359	1,825	2,818	1,669

Almost all of the derivatives are trading transactions; customer transactions are entered into by the trading units. Except in the case of credit derivatives, we reflect contracts for hedging the Bank's own non-trading portfolio in the trading portfolio by way of internal contracts.

Most of the products with share price and other price risks are short-term; the products based on exchange rates tend to be medium-term, while the interest rate contracts and credit derivatives are predominantly long-term.

## Derivatives – Breakdown by Maturity

Nominal Values	Products Based on Interest Rates		Products Based on Exchange Rates		Products Based on Share Prices and Other Prices		Credit Derivatives	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Residual maturity								
– up to 3 months	440,656	469,799	86,521	73,119	19,716	12,947	142	106
– 3 months to 1 year	336,099	344,479	51,733	43,958	35,280	30,845	1,027	2,004
– 1 to 5 years	628,157	789,359	99,278	120,023	27,676	20,907	31,538	25,899
– more than 5 years	640,445	678,755	48,675	56,838	7,077	4,386	117,978	76,846
<b>Total</b>	<b>2,045,357</b>	<b>2,282,392</b>	<b>286,207</b>	<b>293,938</b>	<b>89,749</b>	<b>69,085</b>	<b>150,685</b>	<b>104,855</b>

## Notes to the Balance Sheet

### Claims on Banks (4)

	Dec. 31, 2007 € millions		Dec. 31, 2006 € millions	
	Claims on Affiliated Banks	Claims on Other Banks	Claims on Affiliated Banks	Claims on Other Banks
Payable on demand	1,281.0	13,037.8	1,506.7	7,634.6
With residual maturities of				
– up to 3 months	953.6	37,730.5	723.6	57,476.5
– between 3 months and 1 year	166.4	7,753.8	129.6	7,409.7
– between 1 and 5 years	397.3	3,295.1	343.2	3,739.8
– more than 5 years	2,031.0	1,467.8	2,281.2	1,935.5
<b>Total</b>	<b>4,829.3</b>	<b>63,285.0</b>	<b>4,984.3</b>	<b>78,196.1</b>
<b>Book value</b>	<b>68,114.3</b>		<b>83,180.4</b>	

Affiliated banks pursuant to § 2 No. 2 of the Articles and Bylaws of WestLB AG (central institution for the savings banks function) refer to the savings banks in North Rhine-Westphalia and Brandenburg.

Claims on other banks include claims on affiliated companies in the amount of € 6,326.1 million (2006: € 9,471.3 million) and claims on other companies in which equity investments are held in the amount of € 883.7 million (2006: € 655.0 million). Claims from leasing finance amounted to € 198.4 million (2006: € 203.6 million).

### Claims on Customers (5)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
<b>Book value</b>	<b>89,225.9</b>	<b>89,688.0</b>
including:		
– on affiliated companies	2,660.9	4,080.7
– on other companies in which equity investments are held	4,735.0	5,667.1
– from the leasing business	1,605.8	1,650.9
Breakdown by residual maturity		
– up to 3 months	46,149.6	52,612.6
– between 3 months and 1 year	6,627.6	6,359.6
– between 1 and 5 years	19,699.7	16,190.3
– more than 5 years	15,450.4	13,469.2
Claims with undetermined maturity	1,298.6	1,056.3

## Claims Secured by Mortgages (6)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Claims on customers with residual maturities of		
– up to 3 months	40.4	128.6
– between 3 months and 1 year	15.0	27.2
– between 1 and 5 years	139.0	73.5
– more than 5 years	119.6	107.1
<b>Book value</b>	<b>314.0</b>	<b>336.4</b>

## Bonds and Other Interest-Bearing Securities (7)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
<b>Book value</b>	<b>50,317.7</b>	<b>40,456.5</b>
including: amounts becoming due before December 31, 2008	23,421.0	7,496.5
<b>Breakdown by product</b>		
– money market instruments	14,435.6	1,053.9
– bonds and notes of public-sector issuers	6,809.3	11,036.1
– bonds and notes of other issuers	28,653.9	26,970.8
– own bonds	418.9	1,395.7
<b>Breakdown by marketability</b>		
– listed on a stock exchange	26,064.9	27,349.4
– not listed on a stock exchange	24,252.8	13,107.1
<b>Breakdown by portfolio</b>		
– trading portfolio	35,198.5	25,161.6
– liquidity reserve	182.8	301.2
– investment portfolio	14,936.4	14,993.7
<b>Breakdown by Group affiliation</b>		
– securities of affiliated companies	2,233.4	2,363.6
– securities of other companies in which equity investments are held	597.5	562.0

The € 14.9 billion (2006: € 15.0 billion) in bonds and other interest-bearing securities held as long-term investments is considered to be part of fixed assets. At year-end, € 8.5 billion (2006: € 4.7 billion) of these assets had been valued at the modified lower of cost or market. Their fair value totalled € 8.0 billion (2006: € 4.6 billion). Of that, € 1.2 billion (2006: € 1.4 billion) represented debt obligations which were acquired in connection with interest rate swaps (asset swaps), the commercial value of which equals the purchase price entered on the books. We fund the portion not hedged with assets swaps at the individual transaction level (€ 7.3 billion) either at matching maturities and currencies or secure it against interest rate-based changes in value at the portfolio level.

## Shares and Other Non-Interest-Bearing Securities (8)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Book value	4,540.6	6,409.7
Breakdown by marketability		
– marketable securities	1,407.3	3,999.0
thereof:		
– listed on a stock exchange	1,316.1	3,058.8
– not listed on a stock exchange	91.2	940.2
Breakdown by portfolio		
– trading portfolio	4,433.1	4,022.4
– liquidity reserve	0.0	8.0
– investment portfolio	107.5	2,379.3

The € 2.3 billion of shares in special purpose funds included in our long-term investments in the previous year were redeemed in fiscal 2007.

## Equity Investments in Non-Affiliated Companies (9)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Book value	793.9	887.2
including:		
– banks	34.0	113.6
– financial services institutions	0.4	0.4
Breakdown by marketability		
– marketable securities	185.9	183.1
thereof:		
– listed on a stock exchange	0.0	0.1
– not listed on a stock exchange	185.9	183.0

## Equity Investments in Affiliated Companies (10)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Book value	4,256.3	3,636.9
including:		
– banks	2,359.7	2,182.5
– financial services institutions	54.0	60.6
Breakdown by marketability		
– marketable securities	1,376.3	1,243.1
thereof:		
– not listed on a stock exchange	1,376.3	1,243.1



With regard to securities, the changes in the fiscal year include additions and retirements, as well as changes resulting from the amortisation of premiums and discounts. In fiscal 2007 we took write-downs of € 277.2 million on bonds and other interest-bearing securities treated as fixed assets because we expect their impairment to be permanent.

The item “land and buildings” refers exclusively to properties which are not used in the Bank’s own operations. There is € 2.9 million (2006: € 3.0 million) in land and buildings acquired under bail-out transactions which has been on the books for more than five years.

## Own Shares (14)

We did not acquire any of our own shares in 2007, nor did we hold any of our own shares at year-end.

## Deferred Items (15)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Discounts from underwriting business	303.6	347.2
Discounts from liabilities	290.1	379.0
Swap interest paid in advance	53.0	133.4
Premiums on claims	21.0	16.6
Other	43.1	46.3
<b>Book value</b>	<b>710.8</b>	<b>922.5</b>

## Subordinated Assets (16)

The assets reported on the balance sheet include the following subordinated assets:

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Claims on banks	368.3	23.0
including: affiliated companies	280.0	–
including: other companies in which equity investments are held	88.3	–
Claims on customers	457.3	308.0
including: affiliated companies	45.1	20.4
including: other companies in which equity investments are held	12.7	–
Bonds and other interest-bearing securities	1,369.3	1,092.3
including: affiliated companies	–	0.6
including: other companies in which equity investments are held	–	5.0
Shares and other non-interest-bearing securities	77.6	48.0
including: affiliated companies	–	–
including: other companies in which equity investments are held	8.0	8.0
<b>Total</b>	<b>2,272.5</b>	<b>1,471.3</b>

## Pledged Assets (17)

Of the assets reported on the balance sheet, WestLB pledged € 13,874.0 million (2006: € 14,977.3 million) under repurchase agreements.

## Liabilities to Banks (18)

	Dec. 31, 2007 € millions		Dec. 31, 2006 € millions	
	Liabilities to Affiliated Banks	Liabilities to Other Banks	Liabilities to Affiliated Banks	Liabilities to Other Banks
Payable on demand	3,386.8	9,822.3	5,716.3	10,912.1
With residual maturity of				
– up to 3 months	7,795.9	67,576.3	5,031.7	65,164.3
– between 3 months and 1 year	2,313.5	10,355.9	1,690.4	8,483.5
– between 1 and 5 years	854.5	2,825.3	881.8	2,735.2
– more than 5 years	1,189.7	4,979.2	1,213.5	5,510.9
<b>Total</b>	<b>15,540.4</b>	<b>95,559.0</b>	<b>14,533.7</b>	<b>92,806.0</b>
<b>Book value</b>	<b>111,099.4</b>		<b>107,339.7</b>	

Liabilities to banks include liabilities to affiliated companies in the amount of € 8,329.2 million (2006: € 14,628.6 million) and liabilities to other companies in which equity investments are held in the amount of € 2,386.3 million (2006: € 921.7 million).

## Liabilities to Customers (19)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Deposits	0.2	0.2
thereof:		
– savings deposits with agreed periods of notice of		
– up to 3 months	0.2	0.2
– between 3 months and 1 year	–	–
– between 1 and 5 years	–	–
– more than 5 years	–	–
Liabilities to customers	50,061.5	56,510.9
thereof:		
– payable on demand	9,478.0	8,703.9
with residual maturities of		
– up to 3 months	22,960.5	29,578.9
– between 3 months and 1 year	3,467.7	3,776.9
– between 1 and 5 years	3,589.0	4,407.8
– more than 5 years	10,566.3	10,043.4
<b>Book value</b>	<b>50,061.7</b>	<b>56,511.1</b>
including:		
– liabilities to affiliated companies	1,807.2	3,011.8
– liabilities to other companies in which equity investments are held	3,767.6	2,463.7

## Certificated Liabilities (20)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Bonds issued	22,665.6	16,585.5
including:		
amounts becoming due before December 31, 2008	5,062.4	1,243.7
Other certificated liabilities	24,919.4	30,329.8
thereof with residual maturities of		
– up to 3 months	4,848.5	4,838.2
– between 3 months and 1 year	4,175.6	4,785.5
– between 1 and 5 years	5,840.1	6,778.4
– more than 5 years	10,055.2	13,927.7
<b>Book value</b>	<b>47,585.0</b>	<b>46,915.3</b>
including:		
– certificated liabilities to affiliated companies	–	–
– certificated liabilities to other companies in which equity investments are held	–	–

## Trust Liabilities (21)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Liabilities to banks	0.5	0.1
Liabilities to customers	19.3	19.3
Participations in RWI-Fonds	339.6	375.0
<b>Book value</b>	<b>359.4</b>	<b>394.4</b>

## Other Liabilities (22)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
<b>Book value</b>	<b>9,625.4</b>	<b>11,011.3</b>
including:		
– premiums from options	5,719.1	4,674.3
– securities delivery obligations	1,307.3	4,007.7
– liabilities from swaps	1,142.6	1,091.4
– liabilities to NRW.BANK under pension commitments	569.4	527.0
– interest to be paid on existing profit participation rights	131.5	148.1

## Deferred Items (23)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
Swap interest received in advance	547.9	452.2
Premiums from liabilities	14.8	3.7
Premiums from own bonds issued	8.2	10.1
Other	50.1	264.5
<b>Book value</b>	<b>621.0</b>	<b>730.5</b>

## Provisions (24)

	Beginning Balance Jan. 1, 2007 € millions	Utilised € millions	Reversal € millions	Other Changes € millions	Additions € millions	Ending Balance Dec. 31, 2007 € millions
For pension liabilities	566.8	49.7	0.0	1.5	51.2	569.8
For taxes	355.4	25.5	19.7	- 7.9	122.9	425.2
Other	1,378.6	488.6	203.5	- 14.5	367.3	1,039.3
- in the personnel area	555.2	241.6	0.4	- 0.2	160.3	473.3
- for loans/equity investments	259.0	78.0	131.1	- 0.3	65.5	115.1
- miscellaneous	564.4	169.0	72.0	- 14.0	141.5	450.9
<b>Book value</b>	<b>2,300.8</b>	<b>563.8</b>	<b>223.2</b>	<b>- 20.9</b>	<b>541.4</b>	<b>2,034.3</b>

Of the amount reported for other provisions, the sum of € 399.3 million (2006: € 445.6 million) relates to measures undertaken in previous fiscal years in conjunction with headcount reductions. Miscellaneous provisions include € 86.1 million (2006: € 108.3 million) for potential litigation risks, € 53.1 million (2006: € 77.9 million) for adapting the business and organisational structure, € 50.5 million (2006: € 51.0 million) for expenses associated with the sale of non-strategic equity investments and € 25.9 million (2006: € 40.3 million) for sales commissions.

## Subordinated Liabilities (25)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
<b>Book value</b>	<b>3,568.1</b>	<b>3,703.5</b>
Breakdown by Group affiliation		
- to affiliated companies	1,764.3	1,999.4
- to other companies in which equity investments are held	-	-

Of the total subordinated liabilities, € 1,347.3 million (2006: € 746.1 million) have a residual maturity of less than two years. The original maturities range from five to forty years.

In 2007, pro-rata interest expense of € 164.6 million (2006: € 173.3 million) was incurred for subordinated liabilities.

The subordinated liabilities carried by WestLB itself or via its subsidiaries comply with the requirements of § 10 (5a) of the German Banking Act (KWG); the right to terminate the liabilities without notice has not been reserved.

## Profit Participation Capital (26)

The changes in profit participation capital were as follows in the year under review:

at Jan. 1, 2007 € millions	Additions € millions	Subtractions € millions	at Dec. 31, 2006 € millions
2,103.5	0.0	- 495.5	1,608.0

The following table depicts the breakdown of the profit participation capital by maturity (par value, before the deduction of discounts):

Maturity	€ millions
2008	225.7
2009	621.5
2010	280.4
2011	257.6
2012	142.1
2013–2019	80.7
<b>Total</b>	<b>1,608.0</b>

The profit participation certificates constitute own funds of € 759.6 million (2006: € 1,381.2 million) for the Bank within the meaning of § 10 (5) of the German Banking Act (KWG).

## Fund for General Bank Risks (27)

We completely dissolved the fund for general bank risks formed pursuant to § 340 g of the German Commercial Code (HGB) in 2007 (2006: € 300.0 million).

## Equity Capital (28)

At December 31, 2007, the subscribed capital of WestLB was € 2,243.3 million (2006: € 2,210.0 million) and was divided into 22,432,948 (2006: 22,099,630) no-par-value registered shares. A total of 8,107,400 of these shares offer a preferred dividend up through the year 2016. The theoretical par value of each share is € 100.00. All shares carry the same voting rights. For information concerning our current shareholder structure, please see Note (50).

In 2003, WestLB AG took in silent contributions to capital of € 1,250.0 million. It does not have to repay these silent contributions to capital. Instead, one of five annual instalments equal to € 250.0 million matured every December 31 for a period of time ending December 31, 2007 and was to be converted at the rate of 750% into capital and reserves of WestLB. For purposes of converting the last tranche of the contribution, the owners created an “authorised capital” of € 33.3 million at the Shareholders’ Meeting on May 14, 2007, which can be used up through December 31, 2008. Due to WestLB’s earnings situation and the terms on which the silent contributions to capital were issued, the contributions must absorb € 53.2 million of the loss for fiscal 2007. Therefore, there was no conversion as of December 31, 2007, and the amount of the contribution remaining after the loss absorption will continue to be carried under “typical silent contributions to capital”. No interest will be paid on the silent contributions to capital issued in 2003.

The terms on which the silent contributions to capital of 2005 were issued stipulate that these contributions do not have to participate in any losses unless there is a loss reported on the balance sheet. Interest can still be paid on the contributions as long as there are sufficient funds remaining after taking the net profit or loss for the year plus withdrawals out of reserves from retained earnings formed during the term of the agreement governing the contributions and subtracting any losses brought forward from previous years and the amount to be allocated to legal reserves pursuant to § 300 of the German Stock Corporation Act (AktG). A voluntary payment of interest on the silent contributions to capital issued in 2005 will be proposed to the Bank’s committees.

To avoiding showing a loss on the balance sheet, the sum of € 150.0 million was withdrawn from other reserves from retained earnings and the sum of € 960.4 million from capital reserves.

WestLB’s equity capital pursuant to the German Commercial Code (HGB) stood at € 4,770.7 million after adjusting for the aforementioned measures.

	Total Dec. 31, 2007 € millions	Changes Resulting from Conversion/ Issue of Silent Contributions to Capital € millions	Use of Distributable Profit/Dividend € millions	Withdrawals/ Participation in the Loss for the Year € millions	Total Dec. 31, 2006 € millions
Subscribed capital	2,243.3	33.3	–	–	2,210.0
Paid-in contribution for agreed capital increase	0.0	– 250.0	–	–	250.0
Capital reserves	1,861.2	216.7	–	– 960.4	2,604.9
Reserves from retained earnings	0.0	–	–	– 150.0	150.0
Typical silent contributions to capital					
– issued in 2003	196.8	–	–	– 53.2	250.0
– issued in 2005	469.4	–	–	–	469.4
Distributable profit	0.0	–	– 18.3	–	18.3
<b>Equity capital pursuant to the German Commercial Code (HGB)</b>	<b>4,770.7</b>	<b>0.0</b>	<b>– 18.3</b>	<b>– 1,163.6</b>	<b>5,952.6</b>

## Liability for Pre-Existing Commitments – Grandfathering (29)

In line with the agreement reached between the German government and the European Commission on July 17, 2001, Article 1 § 11 of the Act on Redefining the Legal Status of Public-Law Banking Institutions in North Rhine-Westphalia (Gesetz zur Neuregelung der Rechtsverhältnisse der öffentlich-rechtlichen Kreditinstitute in Nordrhein-Westfalen) stipulates that the former public-law liability mechanisms of institutional liability and guarantor liability will no longer apply to new liabilities and commitments entered into by WestLB after a transitional period which ended on July 18, 2005.

The grandfathering rules for guarantor liability on commitments agreed to prior to July 19, 2005 are as follows:

- All liabilities incurred on or before July 18, 2001 are fully covered by guarantor liability until the time they mature.
- Guarantor liability will remain in effect in its present form for all liabilities incurred from July 19, 2001 to July 18, 2005, so long as the liabilities mature by December 31, 2015; if they mature after the deadline, guarantor liability will not apply.

The guarantors of the former Westdeutsche Landesbank Girozentrale will completely satisfy the obligations arising from their guarantor liability with respect to WestLB, as soon as they have properly determined and set forth in writing at the time a liability matures that the creditor of such liability cannot be satisfied from WestLB's assets. This explicitly includes the possibility of servicing debts precisely at the same time they fall due. The giving of a notice as normally required under aid law is not necessary.

## Foreign Currency Assets/Foreign Currency Liabilities (30)

At year-end, WestLB AG had foreign currency assets valued at € 95.2 billion (2006: € 99.6 billion) and foreign currency liabilities valued at € 52.7 billion (2006: € 77.7 billion).

## Other Commitments (31)

Irrevocable credit commitments involve external credit lines which have not yet been utilised.

The volume of € 67.8 billion (2006: € 80.7 billion) shown on the balance sheet stems from ordinary domestic and international lending activities, as well as liquidity facilities in connection with asset backed transactions and special purpose entities. In the case of one special purpose entity, the Bank has made liquidity commitments which allow the entity to offer the Bank securities upon the occurrence of certain conditions set forth in the parties' agreement. Sufficient provisions have been formed to cover the permanent impairment we expect to record vis-à-vis our commitments to purchase these securities. We believe that € 362.1 million in impairments will only be temporary.

## Provision of Collateral for Own Liabilities (32)

WestLB has assigned or pledged the following asset volumes to the third parties listed in order to secure its own liabilities:

	<b>Dec. 31, 2007</b> <b>€ millions</b>	<b>Dec. 31, 2006</b> <b>€ millions</b>
Own securities assigned or pledged to central banks	16,060.0	8,797.3
Own securities deposited as collateral for participation in stock exchange trading systems and clearing systems	1,186.2	426.2
Own securities pledged to customers or other banks	946.2	64.0
Claims assigned for public-sector lending programmes	150.9	209.2
Hedging of pension obligations	14.5	14.4
<b>Total assets pledged</b>	<b>18,357.8</b>	<b>9,511.1</b>

## Disclosures Pursuant to the Pfandbrief Act (PfandBG) (33)

Outstanding Pfandbriefe and the cover pool backing them pursuant to § 28 (1) Nos. 1 to 3 of the Pfandbrief Act (PfandBG):

### Totals

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
<b>I. Face value</b>		
Public Pfandbriefe	8,449.5	2,376.5
Cover pool	9,439.8	3,046.1
thereof derivatives	–	–
Excess cover	990.3	669.6
<b>II. Net present value (NPV)</b>		
Public Pfandbriefe	8,489.6	2,411.5
Cover pool	9,449.8	3,117.2
thereof derivatives	–	–
Excess cover	960.2	705.7
<b>III. Risk-adjusted NPV*</b>		
Public Pfandbriefe	8,489.6	2,411.5
Cover pool	9,387.8	3,069.6
thereof derivatives	–	–
Excess cover	898.2	658.1

\* Internal risk model pursuant to § 5 (2) of the Ordinance Regarding the Net Present Value of Pfandbriefe (PfandBarwertV)

### Breakdown by Maturity (Residual Maturity)

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
<b>Up to 1 year</b>		
Public Pfandbriefe	1,657.5	50.0
Cover pool	1,588.2	232.1
<b>Between 1 and 5 years</b>		
Public Pfandbriefe	3,866.5	419.0
Cover pool	2,896.5	559.6
<b>Between 5 and 10 years</b>		
Public Pfandbriefe	2,116.0	1,544.0
Cover pool	3,436.3	1,471.5
<b>More than 10 years</b>		
Public Pfandbriefe	809.5	363.5
Cover pool	1,518.8	783.0

Outstanding Pfandbriefe and the cover pool backing them pursuant to § 28 (3) Nos. 1 and 2 of the Pfandbrief Act (PfandBG):

#### Claims Used to Back Public Pfandbriefe

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
<b>Federal Republic of Germany</b>	7,795.5	2,078.0
Government	93.2	10.0
Regional authorities	2,384.5	850.8
Local authorities	3,912.4	1,217.2
Other debtors	1,405.4	–
<b>Austria</b>	427.0	173.6
Government	115.0	–
Regional authorities	185.5	3.1
Local authorities	126.5	170.5
<b>Spain</b>	333.0	123.0
Government	95.0	–
Local authorities	238.0	123.0
<b>Portugal</b>	277.9	73.5
Government	257.9	73.5
Regional authorities	20.0	–
<b>Greece</b>	220.0	200.0
Government	220.0	200.0
<b>Italy</b>	115.9	172.4
Government	100.0	155.0
Regional authorities	15.9	17.4
<b>Switzerland</b>	100.0	–
Regional authorities	100.0	–
<b>Belgium</b>	35.0	–
Regional authorities	35.0	–
<b>Hungary</b>	30.0	30.0
Government	30.0	30.0
<b>Netherlands</b>	30.0	–
Local authorities	30.0	–
<b>Canada</b>	25.6	25.6
Regional authorities	25.6	25.6
<b>Sweden</b>	20.0	–
Regional authorities	20.0	–
<b>France</b>	15.0	155.0
Government	–	140.0
Regional authorities	15.0	15.0
<b>Luxembourg</b>	15.0	15.0
Other debtors	15.0	15.0
<b>Total</b>	<b>9,439.9</b>	<b>3,046.1</b>

## Total Payments at Least 90 Days in Arrears

	Dec. 31, 2007 € millions	Dec. 31, 2006 € millions
	–	–

## Notes to the Statement of Income

### Geographic Breakdown of Income Components (34)

The principal components of profit shown in WestLB's statement of income were obtained in the following geographical markets:

1. 1. – 31. 12. 2007 € millions	Interest Income	Current Income	Commission Income	Net Income from Trading Operations	Leasing Income	Other Operating Income
Germany	12,765.1	569.0	197.8	– 736.8	0.0	85.9
UK	3,247.9	28.9	117.0	294.4	0.0	25.8
Rest of Europe	361.5	0.0	25.0	0.5	5.1	10.4
Far East and Australia	752.3	0.0	29.3	– 14.1	0.0	0.5
North America	6,159.5	5.9	127.1	– 1,021.5	0.0	8.6
Offsets	– 14,098.8	0.0	0.0	0.0	0.0	0.0
<b>Amount reported on the Statement of Income</b>	<b>9,187.5</b>	<b>603.8</b>	<b>496.2</b>	<b>– 1,477.5</b>	<b>5.1</b>	<b>131.2</b>

The geographic breakdown of income is determined on the basis of the domicile of the branch on whose account the transaction is carried or which is responsible for the transaction. This table includes the profit/loss which was derived from transactions between the regional units, but eliminated from WestLB's statement of income. Current income includes income from profit pooling and (partial) profit transfer agreements.

### Administrative and Custodial Services (35)

Services rendered on behalf of third parties include, in particular, custodial services, asset management and the administration of trustee loans.

### Result of Leasing Business (36)

Income from the leasing business includes regular lease payments. Expenses from the leasing business include depreciation of the property being leased.

## Other Operating Result (37)

	1. 1. – 31. 12. 2007 € millions	1. 1. – 31. 12. 2006 € millions
Other operating income		
<b>Amount reported on the Statement of Income</b>	<b>131.2</b>	<b>152.5</b>
including:		
income from the reversal of other provisions	42.2	36.4
reimbursement from Group companies and third parties	30.5	39.7
including: income from IT services	16.8	20.7
rental and property income	16.0	7.8
gains on the sale of fixed assets	8.3	23.8

	1. 1. – 31. 12. 2007 € millions	1. 1. – 31. 12. 2006 € millions
Other operating expenses		
<b>Amount reported on the Statement of Income</b>	<b>93.9</b>	<b>143.7</b>
including:		
allocations to the reserve fund	23.5	25.0
allocations to other provisions	12.0	34.3
losses on the sale of fixed assets	0.8	8.0
expenses for land and buildings not used by the Bank	0.8	0.6
amortisation of settlement payments for NRW.BANK aid	0.0	12.3

## Audit Fees (38)

	1. 1. – 31. 12. 2007 € millions	1. 1. – 31. 12. 2006 € millions
<b>Auditor's fee pursuant to § 285 Sentence 1 No. 17 of the German Commercial Code (HGB)</b>	<b>5.3</b>	<b>3.9</b>
thereof:		
– fees for auditing the annual financial statements	3.7	3.2
– for miscellaneous reports and opinions	1.6	0.7
– tax advice	0.0	0.0
– other services	0.0	0.0

## Risk Provisions (39)

### Individual Value Adjustments and Credit Provisions

(excluding reserves formed pursuant to § 340f and § 340g HGB)

	2007 € millions	2006 € millions
Beginning balance 1. 1.	732.9	1,351.7
Allocations	589.1	113.3
Reversal	– 207.8	– 377.2
Usage	– 95.5	– 393.1
Market value differences/Other changes	– 16.1	38.2
<b>Ending balance 31. 12.</b>	<b>1,002.6</b>	<b>732.9</b>

## Write-Downs and Adjustments Pursuant to § 340 f (3) and § 340 c (2) HGB

	1. 1. – 31. 12. 2007 € millions	1. 1. – 31. 12. 2006 € millions
<b>Result of provisions</b>	<b>– 201.6</b>	<b>285.4</b>
Income/expenses from loans and securities	– 92.6	336.9
thereof: loans	– 96.0	331.3
securities	3.4	5.6
Income/expenses from participations and securities	– 109.0	– 51.5
thereof: participations	83.4	– 31.9
securities due to credit rating risks	– 277.2	0.0
securities	84.8	– 19.6

Pursuant to § 340 f (3) of the German Commercial Code (HGB) we offset the income and expenses resulting from the evaluation of the lending business with write-ups and write-downs on securities held in the liquidity reserve. The net result was a negative € 92.6 million (2006: positive € 336.9 million). Similarly, pursuant to § 340 c (2) of the German Commercial Code (HGB), the expenses related to shares in affiliated and non-affiliated enterprises, as well as securities held in the banking book, were offset by the income amounts for these investments. The net result, in this case, was a negative € 109.0 million (2006: negative € 51.5 million). In fiscal 2007 we took write-downs on securities treated as fixed assets because we expect their impairment to be permanent. For internal steering purposes, we report these effects as part of our risk provisioning for acute counterparty default risks. In addition, we assumed losses of € 11.1 million (2006: € 20.7 million) from subsidiaries.

## Income and Expenses Relating to Different Accounting Periods (40)

There were no major income and expense items relating to different accounting periods in 2007.

## Taxes on Income and Revenues (41)

The tax expense of € 115.5 million (2006: € 137.8 million) consisted of € 95.2 million (2006: € 67.9 million) in income taxes charged to domestic operations and € 20.3 million (2006: € 69.9 million) charged to the business of our foreign branches.

## Profits Transferred Under a Partial Profit Transfer Agreement (42)

Pursuant to the terms on which they were issued, no profits will be transferred on the silent contributions to capital (2006: € 59.1 million). A voluntary payment of interest on the silent contributions to capital issued in 2005 will be proposed to the Bank's committees.

## Other Financial Obligations

### Letters of Comfort (43)

WestLB will, except in the case of political risk, ensure that – proportionate with its investment quota – the banks, financial institutions and management companies in which it holds a significant investment will be in a position to meet their obligations. The 15 enterprises covered by these Letters of Comfort (2006: 15) and the amount of WestLB's investment quotas in them (direct and indirect) are set forth below:

#### Group Subsidiaries

Banco WestLB do Brasil S.A., São Paulo	100%
Bank WestLB Vostok (ZAO), Moscow	100%
Banque d'Orsay S.A., Paris	100%
Compagnie Belge de la WestLB (CBW) S.A., Braine l'Allend	100%
Westdeutsche ImmobilienBank AG, Mainz	100%
WestLB Asia Pacific Ltd., Singapore	100%
WestLB Bank Polska S.A., Warsaw	100%
WestLB do Brasil Cayman Ltd., George Town	100%
WestLB Fund Investments Ltd., London	100%
WestLB Hungaria Bank ZRt., Budapest	100%
WestLB International S.A., Luxembourg	100%
WestLB Ireland plc, Dublin	100%
WestLB (Italia) Finanziaria S.p.A., Milan	100%
WestLB Securities Pacific Ltd., Hong Kong	100%
WestRM – West Risk Markets AG, Baar	100%

In addition to the Letters of Comfort listed above, a global guarantee has been issued for WestLB Covered Bond Bank plc, Dublin.

The Bank has also issued specific Letters of Comfort to third parties for the following six (2006: six) companies:

PE Projekt-Entwicklungsgesellschaft mbH & Co. Büro- und Businesscenter Leipzig Park KG, Düsseldorf
readybank ag, Berlin
Westdeutsche ImmobilienBank AG, Mainz
WestLB Asia Pacific Ltd., Singapore
WestLB (Italia) Finanziaria S.p.A., Milan
West Merchant Bank Ltd., London

## Deposit Insurance and Other Insurance Mechanisms (44)

WestLB is a member of the German Savings Banks and Giro Association (DSGV) and makes contributions to the security reserves of the Landesbanken and Girozentralen. These security reserves constitute protection for contributing banks within the meaning of § 12 of the German Deposit Protection and Investor Compensation Act (Einlagensicherungs- und Anlegerentschädigungsgesetz, EAEG) and are part of the insurance scheme of the Sparkassen-Finanzgruppe (joint liability system).

The insurance scheme of the Sparkassen-Finanzgruppe consists of eleven funds belonging to the regional savings banks and giro associations, the security reserves of the Landesbanken and Girozentralen and the security fund of the Landesbausparkassen, which together form a system of joint liability. There are rules and regulations governing the relationships between regional and national funds which provide for offsetting in cases where coverage is claimed (so-called overflow agreements). In 2007, the Bank was obligated to make an additional contribution of € 18.2 million (2006: € 30.0 million) to the security reserves of the Landesbanken and Girozentralen.

Effective October 1, 2004, the Rhineland Savings Banks and Giro Association and the Savings Banks and Giro Association of Westphalia-Lippe each jointly established a € 500.0 million reserve fund with WestLB to support WestLB and the member savings banks should any of them face financial difficulties. Each fund consists of € 250.0 million in cash and an additional funding obligation of the same amount, with WestLB and the respective association making equal contributions. Up to and including 2006, WestLB had contributed total cash of € 75.0 million to the two funds as agreed. In fiscal 2007, Westdeutsche ImmobilienBank AG (WIB), Mainz, was admitted into both reserve funds. The admission of WIB into the funds has reduced WestLB's annual contributions for the period up to and including the year 2013 by € 1.5 million to € 23.5 million, with the income generated by the funds offsetting this amount. WIB's admission also reduces WestLB's additional funding obligation by this amount.

## Guarantor Liability (45)

WestLB is still a guarantor, to the extent permitted by law, of LRP Landesbank Rheinland-Pfalz, Mainz (for commitments made up to October 1, 2004), and HSH Nordbank AG, Hamburg/Kiel, as well as Westdeutsche ImmobilienBank, Mainz, and DekaBank Deutsche Girozentrale, Frankfurt/Main. Since new commitments made by these institutions are no longer covered by guarantor liability, the volume of covered liabilities is constantly being reduced by the repayment of amounts which have since become due.

## Other Contingent Liabilities (46)

WestLB has issued various “letters of undertaking” in conjunction with the residual value guarantees provided by outside companies. These letters of undertaking stipulate conditions, the occurrence of which can entitle the beneficiaries of the residual value guarantees to demand the issuance of counter-guarantees for the outside companies’ obligations. These conditions have materialised, and the beneficiaries have requested that WestLB issue counter-guarantees. One counter-guarantee each was issued in two cases in 2006. Negotiations are still under way with the other beneficiaries to determine the form and scope of the guarantees to be issued in their cases.

Effective January 1, 2005, responsibility for the services previously rendered by WestLB Systems in the area of IT infrastructure and web/office applications was transferred to an outside company. In conjunction with this outsourcing agreement, WestLB assumed certain responsibilities with respect to the obligations of the WestLB Group companies which acceded to this agreement.

WestLB’s liability to make additional contributions to the Liquiditätskonsortialbank, in which it holds a participation, remained unchanged at € 65.3 million. The Bank may incur additional obligations with respect to its joint liability for the additional contributions to the Liquiditätskonsortialbank from partners who are members of the German Savings Banks and Giro Association (DSGV).

The deficit resulting from pension obligations not carried on the balance sheet within the meaning of Art. 28 (2) of the Introductory Act to the German Commercial Code (EGHGB) was € 95.3 million.

The Bank has other financial obligations resulting from rental, lease and service contracts as well as from uncalled residual funding obligations and as yet unutilised lines from private equity investments in the total amount of € 1,347.7 million (2006: € 1,679.6 million), with € 558.8 million (2006: € 938.6 million) of that amount stemming from contracts with affiliated companies. The agreements run for a maximum of 25 years.

WestLB entered into an agreement with the owner of a parcel of land to guarantee through the year 2110 the long-term “ground rent payments” agreed to by a former subsidiary as a part of a real estate loan on said land. The beneficiary of the guarantee did not release WestLB from this obligation when the subsidiary in question was sold. In order to protect WestLB, the entity which acquired the subsidiary agreed to indemnify WestLB against any claims asserted under the guarantee. The shares of the subsidiary were pledged to WestLB as security for this counter-guarantee.

## Miscellaneous Items

### Remuneration of the Governing Bodies (47)

	2007 € millions	2006 € millions
Total remuneration of the Managing Board	11.8	16.7
– fixed	8.6	10.6
– performance-based	3.2	6.1
Total remuneration of former Managing Board members and their survivors	12.6	7.8
Total remuneration of Supervisory Board members	1.2	1.1
– fixed	1.2	1.1
Pension provisions for former Managing Board members and their survivors	65.0	54.2

The € 1.2 million (2006: € 1.1 million) reported as remuneration of the Supervisory Board members represents a lump-sum reimbursement of their out-of-pocket expenses of € 0.3 million (2006: € 0.2 million) and a provision of € 0.9 million (2006: € 0.9 million) established for their compensation. The compensation for the 2007 fiscal year will first be definitively determined by the 2008 Shareholders' Meeting.

### Loans to Members of the Governing Bodies (48)

The members of the Managing Board of WestLB received no advances or loans in either 2007 or 2006. The members of the Supervisory Board of WestLB received advances and loans totalling € 0.01 million (2006: € 0.02 million).

## Number of Employees (49)

The average number of employees in 2007 was as follows:

	Male	Female	Total 2007	Total 2006
Domestic branches	1,913	1,593	3,506	3,520
Foreign branches	848	561	1,409	1,494
<b>Total</b>	<b>2,761</b>	<b>2,154</b>	<b>4,915</b>	<b>5,014</b>

An average of 108 (2006: 93) employees were engaged in apprenticeship training or equivalent training.

## Shareholdings in WestLB (50)

Shareholder	Investment Quota	
	Dec. 31, 2007 %	Dec. 31, 2006 %
NRW.BANK	31.175	31.586
State of North Rhine-Westphalia	17.469	17.082
Rhineland Savings Banks and Giro Association	25.154	25.312
Savings Banks and Giro Association of Westphalia-Lippe	25.154	25.312
Regional Association of the Rhineland	0.524	0.354
Regional Association of Westphalia-Lippe	0.524*	0.354*
<b>Total</b>	<b>100.000</b>	<b>100.000</b>

\* Held indirectly via Westfälisch-Lippische Vermögensverwaltungsgesellschaft mbH, Münster

No notices pursuant to § 20 (1) and (5) of the German Stock Corporation Act (AktG) were required in the year under review.

## Seats Held by Members of the Managing Board (51)

Members of the WestLB Managing Board are members or chairmen of the following companies' supervisory boards or other supervisory bodies. Seats marked with an asterisk indicate voluntary disclosures which fall outside of the reporting requirements regarding seats on the boards of large corporations pursuant to § 340 a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

### Alexander Stuhlmann

alstria office REIT-AG

Capital Stage AG

DekaBank Deutsche Girozentrale (from October 1, 2007)\*

Deutsche Hypothekenbank Actien-Gesellschaft (until February 15, 2008)

Hamburger Feuerkasse Versicherungs-AG

HCI Capital AG

LBS Bausparkasse Schleswig-Holstein-Hamburg AG (from August 31, 2007)

### Dr. Norbert Emmerich

GFKL Financial Services AG

Hüttenwerke Krupp Mannesmann GmbH

ifb AG

readybank ag

Weberbank Actiengesellschaft

Westdeutsche ImmobilienBank AG

WestLB International S.A.

### Dr. Wolfgang Nickels

Banque d'Orsay S.A. (from September 27, 2007)

Westdeutsche ImmobilienBank AG (from October 5, 2007)

### Dr. Hans-Jürgen Niehaus

Banque d'Orsay S.A. (from September 27, 2007)

Westdeutsche ImmobilienBank AG

WestLB International S.A.

### Werner Taiber

Banque d'Orsay S.A. (from September 27, 2007)

Weberbank Actiengesellschaft (from September 14, 2007)

WestLB International S.A. (from August 22, 2007)

### Dr. Thomas R. Fischer

Audi AG  
AXA Konzern AG (until July 24, 2007)  
DekaBank Deutsche Girozentrale (until July 26, 2007)\*  
Deutscher Sparkassen Verlag GmbH (until August 8, 2007)  
Hapag-Lloyd AG  
Kreditanstalt für Wiederaufbau (KfW) (until August 2, 2007)\*  
Landwirtschaftliche Rentenbank (until August 2, 2007)\*  
RWE AG  
Weberbank Actiengesellschaft (until August 2, 2007)

### Klaus-Michael Geiger

ThyssenKrupp Steel AG  
WestLB International S.A. (until August 15, 2007)

### Robert M. Stein

Banque d'Orsay S.A. (until July 20, 2007)  
WestLB International S.A. (until July 20, 2007)

### Dr. Matthijs van den Adel

Banque d'Orsay S.A. (until July 31, 2007)  
RWE Energy AG  
Westdeutsche ImmobilienBank AG (until October 5, 2007)  
WestLB International S.A. (until July 26, 2007)

## Seats Held by Employees (52)

The following employees are members or chairs of the following companies' supervisory boards. Seats marked with an asterisk indicate voluntary disclosures which fall outside of the reporting requirements regarding seats on the boards of large corporations pursuant to § 340a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

### Carl Adams

Banco WestLB do Brasil S.A. (from January 1, 2008)

### Walid Assaf

Bank WestLB Vostok (ZAO) (until June 20, 2007)  
WestLB Bank Polska S.A. (until June 28, 2007)  
WestLB Hungaria Bank ZRt. (until June 19, 2007)

[Ian Beckman](#)

Compagnie Belge de la WestLB (CBW) S.A.

[Dr. Corinna Brandi](#)

Malteser Krankenhaus St. Anna GmbH (until December 31, 2007)

[Holger Bredekamp](#)

Wohnungsgesellschaft Münsterland mbH

[Klemens Breuer](#)

readybank ag (until December 31, 2007)

[Harald Christ](#)

Aragon AG

Interschalt maritime systems AG

[Neil Colverd](#)

WestLB Covered Bond Bank plc.

WestLB Ireland plc.

[Oliver d'Oelsnitz](#)

Bank WestLB Vostok (ZAO) (until June 15, 2007)

WestLB Bank Polska S.A. (until February 20, 2007)

[Moses Dodo](#)

Banco WestLB do Brasil S.A. (until December 31, 2007)

Compagnie Belge de la WestLB (CBW) S.A. (from November 1, 2007)

WestLB Administration LLC (until December 31, 2007)

WestLB New York Capital Investment Ltd. (until December 31, 2007)

WestLB Securities Inc. (until December 31, 2007)

[Joachim Dubs](#)

Bank WestLB Vostok (ZAO)

[Dagmar Enold](#)

Fraikin Groupe SA (until February 15, 2007)

[Maurizio Fazzari](#)

Banca Carige S.P.A.

[Dietmar Fischer](#)

WestLB AG (from May 14, 2007)

### Michael Frank

Banco WestLB do Brasil S.A. (from January 1, 2008)

WestLB New York Capital Investment Ltd.

WestLB Securities Inc. (from January 1, 2008)

### Jürgen Germies

Klenk Holz AG

### Klaus Goesmann

Compagnie Belge de la WestLB (CBW) S.A. (until May 1, 2007)

Methuseloh Life Markets Ltd. (until May 1, 2007)

### Alan Halperin

WestLB New York Capital Investment Ltd.

### Herbert Jackel

Banco Finantia S.A.

### Ralf Josten

OIE AG (from September 28, 2007)

Stadtwerke Düren GmbH (from November 1, 2007)

TFG Capital AG Unternehmensbeteiligungsgesellschaft (from August 29, 2007)

### Thomas Kaiser

WestLB Ireland plc

### Manfred Kamman

WestLB Bank Polska S.A. (from September 25, 2007)

### Sonja Kardorf

Banco WestLB do Brasil S.A. (from January 1, 2008)

### Frank Kasper

WestLB AG (until May 14, 2007)

### Stephan Kloock

Banco WestLB do Brasil S.A. (from January 1, 2008)

### Joachim Krämer

readybank ag (from January 1, 2008)

WestLB AG

### [Marcus Kramer](#)

Banco WestLB do Brasil S.A. (until December 31, 2007)  
Bank WestLB Vostok (ZAO) (until December 5, 2007)  
readybank ag (until December 5, 2007)  
WestLB Bank Polska S.A. (until December 6, 2007)

### [Thomas Kreyer](#)

WestLB AG (until May 14, 2007)

### [Christiane Kutil-Bleibaum](#)

WestLB AG

### [Graham Light](#)

Compagnie Belge de la WestLB (CBW) S.A. (from May 1, 2007 to August 31, 2007)  
Methuselah Life Markets Ltd. (from May 22, 2007 to August 31, 2007)

### [Sabine Luchte](#)

Bank WestLB Vostok (ZAO) (from November 21, 2007)  
readybank ag (from December 13, 2007)  
WestLB Bank Polska S.A. (from December 6, 2007)

### [Doris Ludwig](#)

WestLB AG

### [Manfred Matthewes](#)

WestLB AG

### [Frederic Mauhs](#)

WestLB Securities Inc. (until December 31, 2007)

### [Thomas McCaffery](#)

Banco WestLB do Brasil S.A. (until December 31, 2007)  
WestLB Administration LLC  
WestLB New York Capital Investment Ltd.

### [David McCaig](#)

Bank WestLB Vostok (ZAO) (from June 15, 2007)  
Methuselah Life Markets Ltd. (from May 22, 2007)  
WestLB Bank Polska S.A. (from September 25, 2007)  
WestLB Hungaria Bank ZRt. (from September 25, 2007)

### [James McPartlan](#)

WestLB Bank Polska S.A. (from February 20, 2007 to September 25, 2007)  
WestLB Hungaria Bank ZRt. (until September 25, 2007)

**Peter Minhorst**

Banque d'Orsay S.A. (from September 27, 2007 to September 27, 2007)  
readybank ag

**Guido W. Mundt**

WestLB Securities Inc. (from January 1, 2008)

**Erik Nagel**

Banque d'Orsay S.A. (until September 27, 2007)  
Compagnie Belge de la WestLB (CBW) S.A. (until November 1, 2007)

**Thierry Nardon**

WestLB New York Capital Investment Ltd.

**Max Niesert**

AKA Ausfuhrkredit-Gesellschaft m.b.H. (from March 28, 2007)

**Luke Nunneley**

WestLB Mellon Asset Management Kapitalanlagegesellschaft mbH

**Andreas Onkelbach**

readybank ag

**Werner Peters**

WestLB Mellon Asset Management Kapitalanlagegesellschaft mbH

**Heinz-Günter Sander**

WestLB AG

**Dr. Johannes Scheel**

Bank WestLB Vostok (ZAO)  
WestLB Bank Polska S.A.  
WestLB Hungaria Bank ZRt.  
WestLB International S.A.

**Jürgen Schneider**

JT International Germany GmbH

**Detlef Semberg**

AKA Ausfuhrkredit-Gesellschaft m.b.H. (until March 28, 2007)

**Frank Simon**

European Policy Exchange Ltd.

### [Heinz-Otto Stamp](#)

Bank WestLB Vostok (ZAO)

Compagnie Belge de la WestLB (CBW) S.A. (from November 1, 2007)

### [Manish Taneja](#)

WestLB Securities Inc. (from January 1, 2008)

### [Margit Timmermann](#)

WestLB Mellon Asset Management Kapitalanlagegesellschaft mbH

### [Sean Tully](#)

WestLB Bank Polska S.A. (from September 25, 2007)

### [Joachim Voss](#)

technotrans AG

### [Heribert Vossen](#)

WestLB Hungaria Bank ZRt. (from January 9, 2007)

### [Matthias Wargers](#)

Westdeutsche ImmobilienBank AG

WestLB Securities Inc. (from January 1, 2008)

### [Charles Weller](#)

Bank WestLB Vostok (ZAO) (from June 15, 2007)

### [Ingo Wichelhaus](#)

European Policy Exchange Ltd.

### [Norberto Zaiet Junior](#)

Banco WestLB do Brasil S.A. (from January 1, 2008)

Bank WestLB Vostok (ZAO) (from November 29, 2007)

WestLB Hungaria Bank ZRt. (from September 25, 2007)

## Governing Bodies of WestLB (53)

### Managing Board

Alexander Stuhlmann, Chairman (from July 26, 2007)

Dr. Norbert Emmerich, Vice Chairman

Dr. Wolfgang Nickels (from September 14, 2007)

Dr. Hans-Jürgen Niehaus

Werner Taiber

Dr. Thomas R. Fischer, Chairman (until July 26, 2007)

Dr. Matthijs van den Adel (until July 26, 2007)

Klaus-Michael Geiger (until July 16, 2007)

Robert M. Stein (until July 10, 2007)

### Members of the Supervisory Board

#### Michael Breuer

Member (from January 1, 2008) and Chairman (from January 7, 2008)

President, Rhineland Savings Banks and Giro Association

#### Dr. Rolf Gerlach

Chairman (until December 31, 2007) and Member

President, Savings Banks and Giro Association of Westphalia-Lippe

#### Doris Ludwig

Vice Chairwoman (until May 10, 2007/from May 16, 2007) and Member

Director, WestLB AG Düsseldorf

#### Raimund Bär (from May 10, 2007)

Chairman of the Staff Council, Westdeutsche ImmobilienBank AG

#### Dr. Karlheinz Bentele (until December 31, 2007)

Former President, Rhineland Savings Banks and Giro Association

#### Bernd Fiegler (until May 10, 2007)

Secretary, ver.di Vereinte Dienstleistungsgewerkschaft

#### Rolf Finger

Secretary for Financial Services,

ver.di Vereinte Dienstleistungsgewerkschaft

[Dietmar Fischer](#) (from May 10, 2007)

Director, WestLB AG Düsseldorf

[Cornelia Hintz](#) (from May 10, 2007)

Secretary, ver.di Vereinte Dienstleistungsgewerkschaft

[Frank Kasper](#) (until May 10, 2007)

Bank Officer, WestLB AG Düsseldorf

[Dr. Wolfgang Kirsch](#) (from April 2, 2007)

Regional Director, Regional Association of Westphalia-Lippe

[Dr. Karl-Ludwig Kley](#)

Chairman of the Executive Board, Merck KGaA

[Joachim Krämer](#)

Senior Managing Director, WestLB AG Düsseldorf

[Thomas Kreyer](#) (until May 10, 2007)

Director, WestLB AG Berlin

[Christiane Kutil-Bleibaum](#)

Director, WestLB AG Düsseldorf

[Dr. Gerhard Langemeyer](#) (from January 1, 2008)

Lord Mayor, City of Dortmund

[Dr. Helmut Linssen](#)

Finance Minister, State of North Rhine-Westphalia

[Annette Lipphaus](#) (from May 10, 2007)

Regional Head of Legal Protection, ver.di Vereinte Dienstleistungsgewerkschaft

[Dr. Siegfried Luther](#)

Former Vice Chairman of the Executive Board, Bertelsmann AG

[Manfred Mathewes](#)

Prokurist, WestLB AG Düsseldorf

[Udo Molsberger](#)

Regional Director, Regional Association of the Rhineland

[Dr. Hans-Ulrich Predeick](#) (until March 31, 2007)

Former Regional Councillor, Regional Association of Westphalia-Lippe

[Heinz-Günter Sander](#)

Prokurist, WestLB AG Düsseldorf

[Gustav Adolf Schröder](#) (until March 31, 2007)

Former Chairman of the Managing Board, Sparkasse KölnBonn

[Christiane Stascheit](#)

Deputy Director for the Düsseldorf Region,  
ver.di Vereinte Dienstleistungsgewerkschaft

[Adolf Terfloth](#) (April 2, 2007 to December 31, 2007)

Chairman of the Managing Board, Sparkasse Düren

[Hans-Georg Vogt](#)

Chairman of the Managing Board, Sparkasse Bielefeld

[Heinz Welter](#) (until December 31, 2007)

Former Chairman of the Managing Board, Sparkasse Neuss

[Alexander Würst](#) (from January 1, 2008)

Chairman of the Managing Board, Kreissparkasse Köln

Düsseldorf/Münster, February 19, 2008

WestLB AG

The Managing Board

Stuhlmann

Dr. Emmerich

Dr. Niehaus

Dr. Nickels

Taiber

## Auditor's Opinion

We have issued the following opinion on the annual financial statements and statement of financial condition:

We have audited the annual financial statements, which consist of the balance sheet, statement of income and notes to the annual financial statements, together with the bookkeeping system, and the statement of financial condition prepared by WestLB AG, Düsseldorf/Münster, for the financial year ending December 31, 2007. The bookkeeping and preparation of the annual financial statements and statement of financial condition according to German commercial law regulations is the responsibility of the legal representatives of the Company. It is our task to give an opinion on the annual financial statements, together with the bookkeeping system, and the statement of financial condition on the basis of our audit.

We carried out our audit in accordance with § 317 of the German Commercial Code (HGB) while complying with the German principles of proper auditing laid down by the Institute of German Certified Public Accountants (IDW – Institut der Wirtschaftsprüfer). According to these principles, the audit must be planned and carried out in a way which ensures that errors and infringements which have a material impact on the presentation of the Company's net assets, financial condition and earnings in the annual financial statements and statement of financial condition can be identified as not being in accordance with generally accepted accounting principles. When defining the audit processes, knowledge of the business activities and economic and legal environment of the Company as well as the expectations regarding possible errors are taken into account. In the context of the audit, the effectiveness of the internal control system and evidence of the correctness of the information contained in the books, annual financial statements and statement of financial condition are for the most part assessed on the basis of samples. The audit covers an assessment of the accounting principles applied and the relevant estimates made by the legal representatives as well as an opinion on the overall presentation of the annual financial statements and statement of financial condition. We are of the opinion that our audit forms a sufficiently reliable basis for our assessment.

Our audit resulted in no objections.

In our opinion founded on the information obtained in the audit, the annual financial statements comply with the requirements of law and, in compliance with standard accounting principles, present a true and fair view of the net assets, financial condition and earnings of the Company. The statement of financial condition is consistent with the annual financial statements, accurately reflects the Company's situation and correctly portrays the opportunities and risks inherent in its future development.

Eschborn/Frankfurt am Main, February 22, 2008

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Prof. Dr. Pfitzer  
German Public Accountant

Müller-Tronnier  
German Public Accountant

## Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of WestLB AG, and the management report includes a fair review of the development and performance of the business and the position of WestLB AG, together with a description of the principal opportunities and risks associated with the expected development of WestLB AG.

Düsseldorf/Münster, February 19, 2008

WestLB AG

The Managing Board



Alexander Stuhlmann



Dr. Norbert Emmerich



Dr. Wolfgang Nickels



Dr. Hans-Jürgen Niehaus



Werner Taiber

## Report of the Supervisory Board

Two factors, in particular, dominated the work of the Supervisory Board and its committees in fiscal 2007: the developments in the Bank's proprietary trading in spread positions with ordinary and preferred shares and the crisis in the international financial markets, which intensified during the second half of the year and still remains an issue today. Both events had a decisive impact on the Bank's earnings trend in the reporting year.

At the end of March 2007, sharp price movements caused by a takeover bid as well as a breach of internal trading limits led to valuation losses in the Bank's proprietary trading in spread positions with ordinary and preferred shares. In addition, information about these trading positions and the trading strategy became publicly known at the beginning of April 2007. As the price volatility of these positions continued to escalate, the Bank subsequently stepped up its implementation of exit strategies. The Federal Financial Supervisory Authority (BaFin) commissioned KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to carry out an audit on WestLB AG's trading operations pursuant to § 44 of the German Banking Act (KWG) in order to determine if they were being conducted in accordance with the applicable rules and regulations. The Supervisory Board acted on the results of this audit and used them as the basis for corresponding measures.

The crisis in the international financial markets, which was sparked by the subprime mortgage meltdown in the U.S. in the second half of 2007 and spread to other segments of the international capital market as the year progressed, constituted the second focus of the Supervisory Board's work in the year under review. The Supervisory Board and its committees received timely, detailed reports from the Managing Board about the resulting effects on the Bank and discussed in detail the available opportunities for action with the Managing Board.

The charges to earnings in the Bank's proprietary trading activities and, more particularly, the impact of the international capital market crisis showed the limits of WestLB's existing business model. The Bank's governing bodies and WestLB's owners discussed the repercussions at length. The outcome of these discussions was the 10-point declaration issued by the owners on December 12, 2007. In this declaration, the owners jointly profess their commitment to WestLB and announce, among other steps, a realignment of the business model. Key points of the realignment include restructuring important areas of the Bank, strengthening WestLB's business with mid-cap companies and expanding the range of retail products available to the savings banks in North Rhine-Westphalia. Additionally, the owners expressed their support for consolidation in the Landesbank sector and declared their willingness to ensure that the Bank has adequate economic capital at all times. In this connection, the shareholders discussed the possibility of creating a risk shield to protect WestLB from the turmoil in the international capital markets. This shield has been in place since March 31, 2008 and gives the Bank the headroom to concentrate on the strategic tasks at hand, irrespective of the volatility in the capital markets.

## Changes in the Composition of the Supervisory Board and Managing Board

The Supervisory Board and Managing Board underwent the following changes in 2007:

Dr. Karl-Ludwig Kley, Chairman of the Executive Board of Merck KGaA, began his term as a member of the Supervisory Board on January 1, 2007. The Shareholders' Meeting had elected him on December 18, 2006 to succeed Dr. Rümker, who resigned effective December 31, 2006.

Dr. Hans-Ulrich Predeick, former Regional Councillor of the Regional Association of Westphalia-Lippe, and Gustav Adolf Schröder, former Chairman of the Managing Board of Sparkasse KölnBonn, resigned as Supervisory Board members effective March 31, 2007. The Shareholders' Meeting elected their replacements, Dr. Wolfgang Kirsch, Regional Director of the Regional Association of Westphalia-Lippe, and Adolf Terfloth, Chairman of the Managing Board of Sparkasse Düren, on April 2, 2007.

In May 2007, an election was held to decide the employee representatives on the Supervisory Board, the first such election since WestLB's transformation into a stock corporation in 2002. Prior to that, the court had appointed the employee representatives to the Supervisory Board.

In the course of this election, Christiane Stascheit, Deputy Director for the Düsseldorf Region, ver.di, Bernd Fiegler, Secretary, ver.di, Frank Kasper, Bank Officer, WestLB, and Thomas Kreyer, Director, WestLB, left the Supervisory Board. Those elected to the Supervisory Board were Doris Ludwig, Director and Chairwoman of the Staff Council, WestLB, Christiane Kutil-Bleibaum, Director, WestLB, Rolf Finger, Secretary, ver.di, Manfred Matthewes, Director, WestLB, and Heinz-Günter Sander, Prokurist, WestLB, all of whom were already serving as Supervisory Board members. The employees also elected Cornelia Hintz, Secretary, ver.di, Annette Lipphaus, Regional Head of Legal Protection, ver.di, Raimund Bär, Chairman of the Staff Council, Westdeutsche ImmobilienBank AG (WIB), and Dietmar Fischer, Director, WestLB, to the Supervisory Board.

On May 16, 2007, the Supervisory Board re-elected Doris Ludwig to serve as the Vice Chairwoman of the Supervisory Board, an office she already held prior to her election to the Supervisory Board by the employees.

In November, Dr. Rolf Gerlach, President of the Savings Banks and Giro Association of Westphalia-Lippe, tendered his resignation as Chairman with effect from December 31, 2007.

Dr. Karlheinz Bentele, former President of the Rhineland Savings Banks and Giro Association and Chairman of the Audit Committee, Adolf Terfloth, Chairman of the Managing Board of Sparkasse Düren, and Heinz Welter, former Chairman of the Managing Board of Sparkasse Neuss, left the Supervisory Board as of December 31, 2007. On December 12, 2007, the Shareholders' Meeting elected Michael Breuer, President of the Rhineland Savings Banks and Giro Association since January 1, 2008, Dr. Gerhard Langemeyer, Lord Mayor of the City of Dortmund, and Alexander Wüerst, Chairman of the Managing Board of Kreissparkasse Köln, as their replacements. All took up their appointments on January 1, 2008.

The Supervisory Board then elected Michael Breuer as its new Chairman on January 7, 2008.

The Supervisory Board thanks its departing members for their dedicated service to the Bank's Supervisory Board and Supervisory Board committees, which in some cases spanned many years.

The following changes occurred in the composition of WestLB's Managing Board:

The Supervisory Board elected Alexander Stuhlmann to serve as a member of the Managing Board and as Chairman of the Managing Board on July 26, 2007. The Supervisory Board also elected him Employee Relations Director at its meeting on September 13, 2007. At that same meeting, Dr. Wolfgang Nickels was elected to serve as a member of the Managing Board with effect from September 14, 2007.

Dr. Thomas R. Fischer, former Chairman of the Managing Board, left the Managing Board as of July 26, 2007. Dr. Matthijs van den Adel, former Employee Relations Director, also left the Managing Board effective July 26, 2007.

Prior to that, Robert M. Stein had resigned on July 10, 2007 and Klaus-Michael Geiger had resigned on July 16, 2007.

On April 1, 2008, the Supervisory Board elected Heinz Hilgert to serve as a member of the Managing Board and its new Chairman effective May 1, 2008. Mr. Stuhlmann resigned effective April 30, 2008.

## Supervision and Advising of Management

In the year under review, the Supervisory Board regularly advised the Managing Board, supervised its management and actively supported the Bank within the scope of the tasks required of supervisory boards by law at four regular meetings and four special meetings. Accordingly, the Supervisory Board performed its duties in full keeping with the statutory provisions as well as the Bank's own articles and bylaws.

The Managing Board provided the Supervisory Board and its committees with detailed reports throughout the year, both at regular intervals and upon request. All relevant aspects of planning, the course of business, company management and strategy, as well as material events and transactions, were covered. Transactions requiring the Supervisory Board's approval were presented to the Supervisory Board, and a decision was made.

The Supervisory Board supervised and examined the Managing Board's management activities on the basis of the information provided and requested as well as the documents submitted.

The Supervisory Board took any necessary action between meetings by written vote.

The Chairman and Vice Chairwoman of the Supervisory Board and the Chairman of the Managing Board regularly discussed current issues and Managing Board decisions.

## Supervisory Board Meetings

The Supervisory Board received regular reports from the Managing Board about the Bank's state of business. The effects of the crisis in the international financial markets and the adverse impact of proprietary trading activities in spread positions each represented a special focus of these reports. The Chairmen of the Audit Committee and Risk Committee reported on their committees' work; the Supervisory Board made decisions concerning equity investments presented for its approval and appointed and removed advisory council members.

Specific items topping the individual meeting agendas were as follows:

At the meeting held on March 28, 2007, the Supervisory Board recommended that the Shareholders' Meeting elect Dr. Wolfgang Kirsch and Adolf Terfloth to the Supervisory Board. Pending their election by the Shareholders' Meeting, which followed on April 2, 2007, the Supervisory Board members elected Dr. Kirsch to serve on the Executive and Risk Committees and Mr. Terfloth to serve on the Risk Committee. In addition, the Supervisory Board adopted the 2006 single-entity financial statements following a corresponding review and discussion based on the reports provided by the Chairman of the Audit Committee and the external auditors and prepared a proposal for the Shareholders' Meeting on use of the distributable profit. The Supervisory Board also resolved on the Corporate Governance Report of WestLB AG to be included in the 2006 Annual Report and on an amendment to the rules governing the conduct of the Supervisory Board's business.

Following revelation of the proprietary trading losses, the Supervisory Board convened for a special meeting on April 25, 2007, where it received detailed information from the Managing Board regarding the proprietary trading activities with preferred and ordinary shares.

At its regular meeting on May 7, 2007, the Supervisory Board approved the Group financial statements and Group statement of financial condition for 2006 following the presentation of corresponding reports by the Chairman of the Audit Committee and the external auditors, resolved on the "Report of the Supervisory Board" to be included in the 2006 Annual Report and prepared its recommendation to the Shareholders' Meeting to ratify the acts of the Supervisory Board members and to appoint Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, as the external auditors.

On May 10, 2007, the employees elected Cornelia Hintz, Christiane Kutil-Bleibaum, Annette Lipphaus, Doris Ludwig, Raimund Bär, Rolf Finger, Dietmar Fischer, Manfred Matthewes and Heinz-Günter Sander to the Supervisory Board of WestLB AG. Ms. Ludwig was elected to serve as Vice Chairwoman of the Supervisory Board, the Executive Committee and the Mediation Committee by means of a written vote taken on May 18, 2007. The same written vote was used to determine the committee memberships of the newly elected employee representatives: Ms. Kutil-Bleibaum, Mr. Matthewes and Mr. Sander were elected to the Executive Committee; Ms. Ludwig, Mr. Fischer, Ms. Kutil-Bleibaum and Mr. Matthewes were elected to the Risk Committee; Mr. Bär, Mr. Fischer, Ms. Kutil-Bleibaum, Mr. Matthewes and Mr. Sander were elected to the Audit Committee; and Mr. Sander was elected to the Mediation Committee.

At a special meeting held on June 18, 2007, the Supervisory Board received a detailed report from the Managing Board about the earnings trend in the first quarter of 2007, with particular attention paid to the charges resulting from proprietary trading activities.

The Supervisory Board accepted the resignations of Mr. Geiger and Mr. Stein in a written vote taken on July 9, 2007.

The Supervisory Board dealt once again with the topic of "proprietary trading in preferred/ordinary shares" at another special meeting on July 26, 2007. The discussion centred on a progress report from the special auditor as well as a report from the Chairman of the Audit Committee on the Audit Committee meeting held earlier that day. At the end of the deliberations, the Supervisory Board dismissed Dr. Thomas R. Fischer and Dr. Matthijs van den Adel and then elected Alexander Stuhlmann to serve as a member and as Chairman of the Managing Board with immediate effect.

At its meeting on September 13, 2007, the Supervisory Board elected Dr. Wolfgang Nickels to serve as a member of the Managing Board and Mr. Stuhlmann to serve as Employee Relations Director. The Supervisory Board also discussed the revisions to the German Corporate Governance Code at this meeting and the application of these changes at WestLB.

The focal points of the Supervisory Board meeting on November 12, 2007 were KPMG's special audit report on the Bank's proprietary trading in ordinary and preferred shares, the related report by the Chairman of the Audit Committee and the measures taken to date by the Managing Board. Current developments in the international financial markets were also discussed at length.

Items handled by the Supervisory Board at its meeting on December 12, 2007 included the 2008 budget and the appointment of new members to the Supervisory Board. The Supervisory Board recommended that the Shareholders' Meeting appoint Michael Breuer, Dr. Gerhard Langemeyer and Alexander Wüerst to the Supervisory Board.

## Work in the Committees

The developments in the Bank's proprietary trading operations and in the international capital markets also dominated the work of the Supervisory Board's committees in the year under review. The Executive Committee prepared the Supervisory Board's regular and special meetings on March 28, 2007, April 25, 2007, May 7, 2007, June 18, 2007, July 26, 2007 (2 meetings), September 13, 2007 (2 meetings), November 12, 2007 and December 12, 2007. It also convened for additional special meetings on May 21, 2007, August 15, 2007, September 4, 2007 and October 30, 2007.

In addition to preparing the meetings of the full Supervisory Board, the Executive Committee discussed the Managing Board mandates and general Managing Board affairs at its regular meetings. On December 12, 2007, it also made the anticipatory resolution for 2008 on loans to members of the Bank's governing bodies pursuant to § 15 of the German Banking Act (KWG). Managing Board affairs also constituted the focus of the special meetings; in addition, the Executive Committee received a detailed report from the Managing Board about the proprietary trading activities in preferred and ordinary shares at its special meeting on April 25, 2007, and at its special meeting on May 21, 2007 it discussed the investment management firm "Brightwater". The Executive Committee discussed the current situation of the Bank at its meeting on September 4, 2007, paying particular attention to the effects of the international financial market crisis on WestLB.

The Audit Committee met four times in the year under review: at two regular meetings on March 21, 2007 and April 25, 2007 and two special meetings on July 26, 2007 and October 30, 2007. Additionally, the Audit and Risk Committees held a joint meeting on April 25, 2007.

At its regular meeting held on March 21, 2007, the Audit Committee discussed the general portion of the audit report prepared on WestLB AG's single-entity financial statements for 2006 by the external auditors, Ernst & Young, two sections of annotations from this report (Section I [Bank-wide Steering] and Section II [Lending Business]) as well as the report on the custodial operations audit and audit performed pursuant to § 36 (1) of the German Securities Trading Act for WestLB AG's 2006 fiscal year. The Audit Committee also prepared its recommendation to the Supervisory Board regarding the proposal for use of the distributable profit and addressed the annual summary report submitted by Group Audit.

At its second regular meeting, which was held on April 25, 2007, the Audit Committee discussed the audit report submitted by the external auditors, Ernst & Young, on WestLB's Group financial statements for 2006 as well as the special reports on the "Lean Bank" project and the subject of "follow-up bonus/personnel incentive systems".

At the joint meeting of the Audit and Risk Committees held later that day, the Managing Board reported on the topic of “proprietary trading in preferred/ordinary shares”. This agenda item was also the focus of the special meeting of the Audit Committee held on July 26, 2007, to which the other members of the Supervisory Board were also invited. At this meeting the Audit Committee discussed a progress report submitted by the special auditor, KPMG, on the proprietary trading activities in ordinary and preferred shares. The full report of KPMG was discussed at another special meeting of the Audit Committee held on October 30, 2007. Once again, all other members of the Supervisory Board attended.

The Risk Committee met a total of seven times in 2007. At its regular meetings on January 25, 2007, April 26, 2007, July 9, 2007 and October 25, 2007, it discussed the credit risks which are subject to its review by law and by virtue of the articles and bylaws, issued its approval for loans to members of the Bank’s governing bodies where § 15 of the German Banking Act (KWG) requires such approval and took note of the individual approval requests submitted on large loans and on transactions deviating from the credit risk strategy. It also received reports from the Managing Board about WestLB’s risk situation, with particular focus being placed on the risk situation report prepared by Group Risk Management and the risk reporting by Credit Risk Management. The Risk Committee dealt on an ongoing basis with the risk strategies the Managing Board presented for the individual business segments.

The Risk Committee also discussed the following issues:

On January 25, 2007, the Managing Board submitted status reports on structured products/ tax transactions as well as security management for operational risks at WestLB. On April 26, 2007, the Risk Committee received information about the allocation of sector limits on an EaD (exposure at default) basis and the overall strategy for the Bank, both as part of a broader discussion on the general credit risk strategy. It also addressed the topics of “asset quality review” and “subprime mortgages, USA” and discussed the Bank’s proprietary trading activities with preferred and ordinary shares. On July 9, 2007, the Risk Committee received a progress report on the handling of the external auditors’ comments, a status report on the implementation of Basel II and a report on strategy and risk analysis in proprietary trading with ordinary and preferred shares. It also addressed tax-driven transactions.

Items discussed at the Risk Committee meeting on October 25, 2007 included current market and liquidity developments as well as the Bank’s overall risk strategy. In addition, the Managing Board informed the Risk Committee about the management of operational risks relating to WestLB’s IT systems and gave a status report on the investee Basinghall and the implementation of Basel II.

As already mentioned, the topic of “proprietary trading in preferred/ordinary shares” topped the agenda of the joint meeting held with the Audit Committee on April 25, 2007.

The special meetings on August 14, 2007 and September 11, 2007 were called in order to discuss the developments in the international capital markets. The Managing Board reported to the committee at length on current market developments and their effects on WestLB AG.

The Mediation Committee did not meet in 2007.

## Essential Features of the Compensation System for Managing Board Members

The responsibility for determining the compensation of the members of WestLB AG's Managing Board rests with the Supervisory Board's Executive Committee. In particular, the Executive Committee determines the salaries and other forms of compensation for Managing Board members, including pension commitments. Employment agreements detailing the remuneration have been executed with the members of the Managing Board. These contracts include a fixed compensation component and a variable component in the form of a year-end bonus. The fixed component, a base salary not directly linked to performance, is paid on a monthly basis and reviewed regularly for its appropriateness, at the latest when employment agreements are renewed. The fixed component includes non-cash compensation awarded in customary amounts. The individual year-end bonus is designed as an incentive. Its amount depends on a performance review, the chief focus of which is the attainment of business goals. WestLB grants its Managing Board members additional, job-related benefits, including reimbursement of their expenses for a home office, annual medical check-ups, business trips, personal security and other similar outlays. The compensation paid in 2007 to active Managing Board members, as well as former Managing Board members and their survivors, is provided in the notes to the financial statements.

## Audit and Adoption of the Single-Entity and Group Financial Statements

The Supervisory Board discussed the Bank's single-entity financial statements and the Group financial statements at its meeting on April 23, 2008. At the end of its discussions, it approved and thereby adopted the single-entity financial statements prepared by the Managing Board. The Supervisory Board also approved the Group financial statements prepared by the Managing Board. The Supervisory Board recommended that the Shareholders' Meeting ratify the acts of the Supervisory Board and of Managing Board members Mr. Stuhlmann and Dr. Nickels for the 2007 fiscal year and appoint the external auditors for 2008.

Supervisory Board members received copies, in a timely manner, of the single-entity financial statements and statement of financial condition prepared by the Managing Board, the Group financial statements and Group statement of financial condition, the external auditors' reports on the single-entity financial statements and Group financial statements, as well as the annual summary report prepared by Group Audit, pursuant to the Minimum Requirements for the Internal Audit Function of Banks.

The external auditors, Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, attended the Supervisory Board and Audit Committee meetings at which these documents were discussed.

The Audit Committee discussed the external auditors' reports on the single-entity financial statements and Group financial statements at its meeting on April 10, 2008. The external auditors audited the single-entity financial statements and statement of financial condition, as well as the Group financial statements and Group statement of financial condition, for the 2007 fiscal year. The financial statements and statements of financial condition of WestLB AG and WestLB Group, as well as the bookkeeping on which they are based, received the external auditors' unqualified audit opinion. The Supervisory Board and Audit Committee examined the financial statements and statements of financial condition and discussed the reports of the external auditors on the results of their audit.

Based on the final result of its own review, the Supervisory Board raised no objections.

The external auditors issued the following audit opinion:

"We have issued the following opinion on the annual financial statements and statement of financial condition:

We have audited the annual financial statements, which consist of the balance sheet, statement of income and notes to the annual financial statements, together with the bookkeeping system and the statement of financial condition prepared by WestLB AG, Düsseldorf/ Münster, for the financial year ending December 31, 2007. The bookkeeping and preparation of the annual financial statements and statement of financial condition according to German commercial law regulations is the responsibility of the legal representatives of the Company. It is our task to give an opinion on the annual financial statements, together with the bookkeeping system, and the statement of financial condition on the basis of our audit.

We carried out our audit in accordance with § 317 of the German Commercial Code (HGB) while complying with the German principles of proper auditing laid down by the Institute of German Certified Public Accountants (IDW – Institut der Wirtschaftsprüfer). According to these principles, the audit must be planned and carried out in a way which ensures that errors and infringements which have a material impact on the presentation of the Company's net assets, financial condition and earnings in the annual financial statements and statement of financial condition can be identified as not being in accordance with generally accepted accounting principles. When defining the audit processes, knowledge of the business activities and economic and legal environment of the Company as well as the expectations regarding possible errors are taken into account. In the context of the audit, the effectiveness of the internal control system and evidence of the correctness of the information contained in the books, annual financial statements and statement of financial condition are for the

most part assessed on the basis of samples. The audit covers an assessment of the accounting principles applied and the relevant estimates made by the legal representatives as well as an opinion on the overall presentation of the annual financial statements and statement of financial condition. We are of the opinion that our audit forms a sufficiently reliable basis for our assessment.

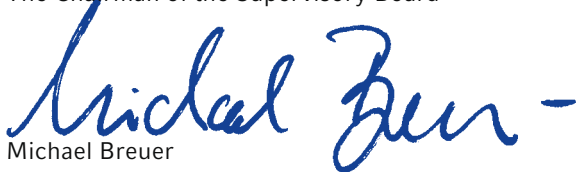
Our audit resulted in no objections.

In our opinion founded on the information obtained in the audit, the annual financial statements comply with the requirements of law and, in compliance with standard accounting principles, present a true and fair view of the net assets, financial condition and earnings of the Company. The statement of financial condition is consistent with the annual financial statements, accurately reflects the Company's situation and correctly portrays the opportunities and risks inherent in its future development."

The Supervisory Board thanks the Managing Board and all employees for the work they have done during the past year.

Düsseldorf/Münster, April 23, 2008

The Chairman of the Supervisory Board



Michael Breuer

## Corporate Governance at WestLB AG

### Belief in Transparency

We believe that efficient corporate governance which meets international standards is a core challenge of responsible, value-driven management. Although we are not a listed company, WestLB AG decided in 2006 to voluntarily endorse the German Corporate Governance Code (GCGC) in its current version and any revised versions.

We make information concerning our compliance with the recommendations of the GCGC a regular part of our Annual Report and also publish it on our website at [www.westlb.com](http://www.westlb.com).

### Directors Dealings (Disclosures Pursuant to Section 6.6 of the GCGC)

None of our Managing Board or Supervisory Board members directly or indirectly own shares in WestLB AG or related financial instruments.

### Compensation Report

Pursuant to the recommendations of the GCGC, we disclose the compensation of our Managing Board in a compensation report which, as part of the corporate governance report, describes the principles of the compensation system for Managing Board members. The compensation report also includes information about the components and amount of the Supervisory Board's compensation. We have not reported the compensation of the Managing Board members individually. All owners of WestLB AG are represented in the committees which deal with compensation issues, thus ensuring full access and complete transparency for all parties with a legitimate interest in this information. We do not report the compensation of our Supervisory Board members individually.

### Compensation of the Managing Board

The responsibility for determining the compensation of the Managing Board of WestLB AG rests with the Supervisory Board's Executive Committee. In particular, the Executive Committee determines the salaries and other forms of compensation, including pension commitments. Employment agreements detailing the remuneration have been executed with the members of the Managing Board. These contracts include a fixed compensation component and a variable component in the form of a year-end bonus.

The fixed component, a base salary not directly linked to performance, is paid on a monthly basis and reviewed regularly for its appropriateness, at the latest when employment agreements are renewed. It also includes non-cash compensation awarded in customary amounts. For the most part, such non-cash compensation covers the use of a company car for business purposes and the payment of insurance premiums.

The individual year-end bonus is designed as an incentive. Its amount depends on a performance review, the chief focus of which is the attainment of business goals.

WestLB grants its Managing Board members additional, job-related benefits, including reimbursement of their expenses for a home office, annual medical check-ups, business trips and personal security.

### Compensation of the Supervisory Board

The compensation of the Supervisory Board, which members receive after the close of the fiscal year, is set at a reasonable level by a resolution of the Shareholders' Meeting.

As a rule, we compensate the Supervisory Board members for their out-of-pocket expenses and any value-added tax they pay on their compensation, if they invoice the tax separately.

### Remuneration of the Governing Bodies in 2007

The remuneration of the governing bodies of WestLB AG in 2007 was as follows:

	1. 1. – 31. 12. 2007 € millions	1. 1. – 31. 12. 2006 € millions
<b>Total remuneration of the Managing Board*</b>	<b>12.0</b>	<b>16.9</b>
– fixed	8.6	10.6
– performance-based	3.2	6.1
– long-term incentive programmes	0.0	0.0
– from holding supervisory board seats at Group subsidiaries	0.2	0.2
<b>Total remuneration of former Managing Board members and their survivors</b>	<b>12.6</b>	<b>7.8</b>
<b>Total remuneration of the Supervisory Board</b>	<b>1.2</b>	<b>1.1</b>
– fixed	1.2	1.1
– performance-based	0.0	0.0
– long-term incentive programmes	0.0	0.0
<b>Pension provisions for former Managing Board members and their survivors</b>	<b>65.0</b>	<b>54.2</b>

\* A total of € 2.2 million was allocated to pension provisions for Managing Board members in 2007 (2006: € 4.5 million).

## Declaration of Conformity 2007

The Managing Board and Supervisory Board herewith declare for 2007 that WestLB AG complied, and will continue to comply, with the recommendations of the "Government Commission of the German Corporate Governance Code" (GCGC), as amended on June 14, 2007, with the following exceptions:

- We do not follow the recommendation in Section 2.3.1 Sentence 3 and Section 2.3.2 of the GCGC to publish the documents required for Shareholders' Meetings on our website and send the notices of meeting and related documents by electronic means. This recommendation is tailored to the information needs of shareholders, most notably foreign shareholders, in listed stock corporations. It does not serve the particular needs of WestLB AG's shareholders. As arranged with our owners, we mail each of them the relevant documents and information directly.
- Section 3.8 Paragraph 2 of the GCGC stipulates that a suitable deductible shall be agreed upon in cases where the Company takes out a D&O (directors' and officers' liability insurance) policy for its Managing Board and Supervisory Board. We do not believe that having a deductible in place for D&O policies improves the motivation or sense of responsibility with which our Managing Board and Supervisory Board approach their work and have decided against any such arrangements.
- Section 4.2.1 Sentence 2 of the GCGC recommends making the allocation of duties among individual Managing Board members part of the rules governing the conduct of its business. We refrain from specifying fixed responsibilities for our Managing Board members in the rules for conducting business in order to ensure maximum flexibility. In our case, the duties of individual members are governed in a business distribution plan.
- Section 4.2.2 of the GCGC provides that the full Supervisory Board shall discuss and regularly review the structure of the Managing Board compensation system based on the proposal of the committee which deals with Managing Board contracts. Our Supervisory Board has assigned these duties to its Executive Committee.
- We do not follow the recommendations in Section 5.1.2 Paragraph 2 Sentence 3 and Section 5.4.1 Sentence 2 of the GCGC to specify an age limit for Managing Board and Supervisory Board members. We believe that the age of Board members is not a sufficient measure of their qualification to serve.
- Section 5.3.3 of the GCGC recommends that the Supervisory Board form a nominating committee to propose suitable candidates to the Supervisory Board for recommendation to the Shareholders' Meeting. In our case, the owners themselves regularly recommend the candidates to serve as the shareholder representatives on the Supervisory Board. We will therefore not be forming a nominating committee.

- Section 5.4.7 Paragraph 2 Sentence 1 of the GCGC recommends that members of the Supervisory Board receive performance-based compensation in addition to fixed compensation. We believe that performance-based compensation could affect the objectivity of the Supervisory Board. Thus, the Shareholders' Meeting of WestLB AG has determined that the members of the Supervisory Board will receive a fixed remuneration.
- Section 5.4.7 Paragraph 3 of the GCGC states that the compensation of the Supervisory Board members shall be disclosed by name. We believe that providing the total compensation of the members of the Supervisory Board is sufficient for judging the reasonableness of the compensation.
- Section 7.1.2 Sentence 3 of the GCGC stipulates that the consolidated financial statements shall be publicly accessible within 90 days of the end of the fiscal year and interim reports within 45 days of the end of the reporting period. WestLB publishes its unconsolidated and consolidated financial statements as well as its interim reports within the legal time limits applicable to non-listed companies.

To view our corporate governance report on the web, point your browser to [www.westlb.com](http://www.westlb.com) and click "Corporate Responsibility/Corporate Governance".

Düsseldorf/Münster, April 1, 2008

Representing the Supervisory Board



Michael Breuer

Representing the Managing Board



Alexander Stuhlmann

## Financial Calendar

August 28, 2008      Interim Report June 30, 2008

November 27, 2008      Interim Report September 30, 2008

Subject to changes

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The Financial Report is also available in German and on the Internet at [www.westlb.com/Investor Relations](http://www.westlb.com/Investor%20Relations).

## Disclaimer

### Reservation regarding forward-looking statements

This Financial Report contains forward-looking statements on our business and earnings performance, estimates, forecasts and expectations. The statements entail risks and uncertainties, as there are a variety of factors which influence our business and to a great extent lie beyond our sphere of influence. Above all, these include the economic situation, the state of the financial markets worldwide and possible loan losses. Actual results and developments may, therefore, diverge considerably from our current assumptions, which, for this reason, are valid only at the time of publication. We undertake no obligation to revise our forward-looking statements in the light of either new information or unexpected events.





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